Financial Report Fiscal Year 1996

U.S. Department of Labor

U.S. Department of Labor
1996 Accomplishments

Keeping the Pension Promise

- Fought 401K pension fraud with more than 1100 investigations returning nearly $10 million to defrauded employees.
- Required quicker deposit of 401 K funds, earning an additional $75 million annually for workers' plans.
- Enacted the Retirements Savings and Security Act expanding pension coverage, portability and protections.
- Enacted a new small business 401 (K) plan for the 10 million workers not currently covered.

Making Health Care Work

- Helped as many as 25 million Americans who switch jobs or lose jobs with the passage of the "Health Insurance Portability and Accountability" Act.

Making Work Pay

- Raised the minimum wage from $4.25 to $5.15 per hour, increasing wages for nearly 12 million Americans.
- Closed thousands of sweatshops; recovered $8.4 million for over 29,000 garment workers; 50 manufacturers committed to monitoring subcontractors.

Safe Workplaces, Healthy Workers

- Protected the safety and health of the nation's 350,000 miners by reducing injuries to their lowest level ever.
- Developed cooperating compliance programs (CCPs) in 24 states to protect more workers for fewer dollars.
- Reduced time from worker complaint to abatement of hazard by 75%.

Improved Labor Market Data to Guide Policy Decisions

- Conducted first comprehensive measure of workers in contingent jobs.
- Instituted new survey to measure training provided or financed by employers.
- Issued new measures of employment, earnings and prices for the service sector.
- Implemented fax-on-demand service so customers can obtain BLS data 24 hours a day, 7 days a week.

Easing the Transition to Work

- Enacted and implemented School-to Work apprenticeships, now involving over half a million young people and 150,000 employers.
- Assist 60,000 economically disadvantaged youth annually with the Job Corps programs where 75% of graduates go on to school, the military, or unsubsidized employment.
- Doubled the number of dislocated workers (to 640,000) who get job search assistance and training for new jobs.
- Implemented worker profiling in all 53 states and territories to target the potentially long- term unemployed for services and training.
- Created "America's Job Bank" on the Internet now listing 500,000 job openings and visited 6.1 million times in June 1996.
- Brought the total number of One-Stop Career Centers to 142 in 16 states, consolidating employment services under one roof for the convenience of job seekers.

Robert B. Reich
Secretary of Labor

Cynthia A. Metzler
Acting Deputy Secretary of Labor

Edmundo A. Gonzales
Chief Financial Officer

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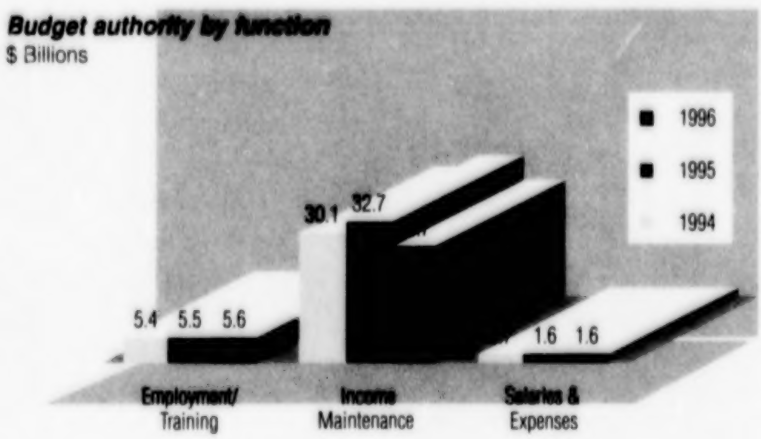
THE U.S. DEPARTMENT OF LABOR

WORKING FOR FIRST JOBS, NEW JOBS, BETTER JOBS

Created by a law signed by President William H. Taft on March 4, 1913, the U.S. Department of Labor is one of the oldest cabinet level departments in the Federal government.

MISSION

The Department of Labor fosters, promotes and develops the welfare of the wage earners of the United States by improving their working conditions and advancing their opportunities for profitable employment. In carrying out this mission, the Department administers a variety of Federal Labor laws guaranteeing workers' rights to safe and healthful working conditions; a minimum hourly wage and overtime pay; workers' compensation; freedom from employment discrimination, and unemployment insurance. The Department also protects workers' pension and other benefit rights; provides for job-training programs; helps workers find jobs; helps employers find workers; works to strengthen free collective bargaining; and keeps track of changes in employment, prices, and other national economic measurements.



GOALS

During FY 1996, the Department continued its emphasis on developing an effective workforce investment strategy to ensure that workers are trained to take advantage of the opportunities and job growth in emerging industries and businesses. The overarching goals established by the Secretary are designed to focus the Department's efforts to aid America's working men and women. These goals were formalized in a Performance Agreement between the President and the Secretary and between the Secretary and executive staff.

They are (1) *first jobs*—to improve opportunities for good jobs; (2) *new jobs*—to ease the transition of American workers from job to job; and (3) *better jobs*—to ensure both through enforcement presence and compliance assistance so that employers can better appreciate the economic

benefits of safe, high-performance workplaces.

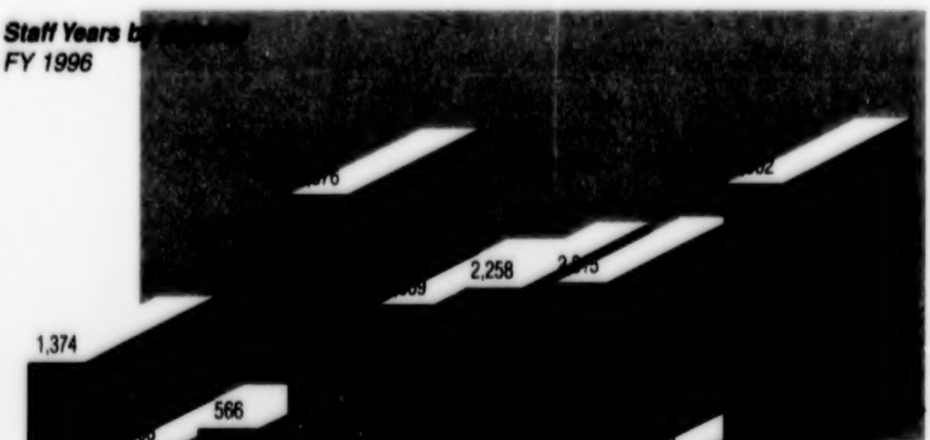
Since the continued growth of the U.S. economy depends upon deficit reduction, fewer resources for new program initiatives and investments in the American workforce will be available in the future. The Department's ability to achieve these goals depends upon its success in achieving program improvements and greater managerial efficiencies, while absorbing the 12 percent reduction mandated in the Federal workforce by FY 1999. Thus the final goal is focused on the Department's reinvention efforts—to examine current methods of doing business and to eliminate unnecessary steps so that workforce capacity expands even though resources are reduced.

Initiatives financed under *first jobs* and *new jobs* are primarily the responsibility of the Employment and Training Administration. The balance of the Department's programs and activities fall under the goal to provide *better jobs* for all Americans. The Department is committed to becoming a high-performing organization through its varied reinvention activities and focusing on empowering frontline workers to enhance customer service.

The following DOL agencies work to accomplish the Department of Labor's mission and goals.

The **Employment and Training Administration** (ETA) funds training programs enabling workers to gain the skills needed for employment; it oversees state employment service offices which help people find jobs and employers find workers; and it offers income maintenance programs for workers who lose their jobs through no fault of their own. Special efforts are made to meet the unique job market problems of older workers, youth, minority group members, women, people with disabilities, and others.

The **Employment Standards Administration** (ESA) enforces a variety of statutes which prescribe standards and conditions of employment, i.e. the minimum wage, child labor restrictions, overtime pay, migrant and agricultural worker protections, immigration and other employment standards. It enforces nondiscrimination and affirmative action regulations applying to federal contractors, administers provisions of the Labor-Management Reporting and Disclosure Act of 1959, as amended, and manages workers' compensation programs for federal employees, longshore and harbor workers, coal miners and some other groups.



The **Occupational Safety and Health Administration** (OSHA) ensures safe and healthful working conditions for American workers by promulgating workplace safety and health standards and enforcing compliance by

inspecting places of employment. It also provides consultation, training, education and information services for employers and employees to promote voluntary compliance to achieve safe and healthful workplaces. Matching grants are provided to help states administer and enforce occupational safety and health programs.

The **Mine Safety and Health Administration** (MSHA) strives to improve the working conditions of the nation's miners by establishing health and safety standards, enforcing compliance with the standards, providing technical assistance to resolve compliance problems, and promoting health and safety education and training in the mining community.

The **Pension and Welfare Benefits Administration** (PWBA) administers Title I of the Employee Retirement Income Security Act of 1974 (ERISA) and certain portions of the Federal Employees' Retirement System Act of 1986. PWBA is responsible for regulation, enforcement and research to protect private sector pension plans and private sector welfare benefit plans.

The **Bureau of International Labor Affairs** (ILAB) carries out the Department's international responsibilities and help formulate international economic, trade and immigration policies affecting American workers.

The **Women's Bureau** promotes the welfare of wage earning women and seeks to improve their working conditions, increase their efficiency and advance their opportunities for profitable employment.

The **Bureau of Labor Statistics** (BLS) is the principal fact-finding agency in the Federal government in the broad field of labor economics. BLS regularly collects, processes, analyzes and publishes timely and accurate data on employment, unemployment, wages, occupational outlook, prices, productivity and job safety and health. It also develops important information on labor market demographics and projections of economic growth.

The **Veterans' Employment and Training Service** (VETS) ensures that veterans receive employment priority of services and training to which they are entitled by law, assists separating service members with employability training, and enforces veterans' reemployment rights laws.

The **President's Committee on Employment of People With Disabilities** (PCEPD) facilitates communication, coordination and promotion of public and private efforts to enhance the employment of people with disabilities; provides information, training, and technical assistance in support of the Americans with Disabilities Act (ADA), and the Rehabilitation Act of 1973, as amended, to America's business leaders, organized labor, rehabilitation and service providers, advocacy organizations, families and individuals with disabilities. This was achieved by working with Governor's Committees in the States, Puerto Rico and Guam; Mayor's Committees; volunteers; and disability community leaders.

The **Benefits Review Board** (BRB) rules on appeals raising substantial questions of law or fact from decisions of Administrative Law Judges with respect to cases arising under the Longshore and Harbor Workers' Compensation Act (33 U.S.C. 901) and its extensions and the Black Lung Benefits Act of 1972 (30 U.S.C. 801). The BRB exercises the same authority that the United States District Courts held in these areas of the law prior to the 1972 amendments to both acts.

The **Office of Inspector General** (OIG) administers provisions of the Inspector General's Act for the Department of Labor. Through an independent, comprehensive program of audits and investigations, the Office focuses on the efficiency and effectiveness of the Department's programs and preventing or detecting fraud, waste and abuse. The OIG also investigates to reduce the influence of organized crime and labor racketeering in employee benefit plans, union activities, and labor-management relations.

THE PROGRAMS

Virtually every aspect of earning a living is covered by the Department's programs.

INCOME MAINTENANCE

Many Americans find their incomes interrupted at times. Whether their problems are caused by layoffs, on-the-job injury, or foreign imports, such workers need help.

One of the Department's priorities is to provide workers with the skills needed to adapt to labor market change. In keeping with its mission to support the welfare of wage earners, the Department administers several programs to protect workers who need special help when their incomes are interrupted through no fault of their own. These programs include unemployment compensation, workers' compensation and trade adjustment assistance.

UNEMPLOYMENT INSURANCE PROGRAM (ETA)

The Unemployment Insurance (UI) program establishes the first economic line of defense for workers who lose their jobs through no fault of their own. Authorized by the Social Security Act of 1935, UI was created as a means to alleviate personal hardship due to involuntary unemployment and to stabilize the economy.

The UI system is a unique Federal-State partnership based on Federal law but executed through State law by State officials. It is funded through employer taxes that are maintained in the Unemployment Trust Fund. Basic benefits for unemployment compensation are financed by State taxes on employer payrolls, while benefit costs for ex-federal workers are reimbursed by Federal agencies. Program administration expenses are financed through the collection of taxes under the Federal Unemployment Tax Act (FUTA) by the Internal Revenue Service. During FY 1996, a total of $2.214 billion was provided to the State Employment Security Agencies (SESAs) for administration of the UI program.

Claimants for UI benefits are served by 53 SESAs operating approximately 1,800 local UI claims offices. SESAs are responsible for both the payment of UI benefits and the collection of UI taxes from all liable/subject employers.

In FY 1996, the total unemployment rate averaged 5.5 percent while the insured unemployment rate averaged 2.3 percent. An estimated 115 million workers were covered by the UI program, of which 8.2 million received cash benefits.

The 53 State agencies collected $22.95 billion in State UI taxes and reimbursable payments from 6.2 million liable subject employers. They paid out $22.5 billion in benefits under the Federal and State regular and extended benefits programs. Benefits were paid to first time intrastate claims within 14 days, 92.1 percent of the time.

On an accrual basis, State and Federal tax revenues totaled $27.7 billion in FY 1996. Accrued benefit payments and other expenses were $27.2 billion. At the close of FY 1995, the restated Unemployment Trust Fund accrued balance was $48.7 billion. In FY 1996, it increased by $5.3 billion to $54.0 billion. The FY 1996 ending balance of the UTF on a cash basis was $54.908 billion.

WORKERS' COMPENSATION (ESA)

The Department administers three major disability compensation programs that provide benefits to workers who experience work-related injuries or diseases, and survivors of employees who died from job-related injuries or diseases. Compensation for most private-sector workers who incur job-related injuries is administered by State agencies.

In FY 1996, the Department budgeted more than $2.5 billion in medical and wage-loss benefits to nearly 290,000 workers who had been hurt or became ill on the job or to the survivors of those who died.

FEDERAL EMPLOYEES' COMPENSATION (ESA)

The Federal Employees' Compensation Act (FECA) affords income and medical-cost protection for job-related injuries, diseases or deaths of civilian employees of the Federal government and certain other groups. Benefits are charged back to Federal-employers, who pay from funds appropriated in their annual budgets or from operating revenues. In FY 1996, FECA received 175,000 Federal employee injury reports. Of this number, most were adjudicated in a timely manner—92.9 percent of traumatic injuries within 45 days, and 85.8 percent of the nontraumatic injury cases within 180 days.

In FY 1996, the FECA program continued the Periodic Roll Management Project (PRM) which was aimed at quality management of the disability roll, improvement in service to long-term disabled beneficiaries, rehabilitation and reemployment of the partially disabled and adjustment of benefits to reflect eligibility more accurately. Since April 1992, PRM project teams in four district offices have screened over 34,000 long-term cases. By the end of FY 1996, 30 percent of those cases had benefits adjusted or terminated. Continuing cumulative savings from these actions compounded over the four-year period were $180 million.

LONGSHORE AND HARBOR WORKERS COMPENSATION (ESA)

The Longshore and Harbor Workers' Compensation Act provides medical benefits, compensation for lost-wages and rehabilitation services for job related injuries, diseases or death of private-sector workers in certain maritime and related employment. Benefits are paid directly from private funds by an authorized self-insured employer or through an authorized insurance carrier. In certain cases, benefits are paid from a special fund composed primarily of employer contributions and administered by the Department. In FY 1996, about 89,000 maritime workers or their survivors received benefits from employers. Another 7,100 workers received compensation benefits from the Longshore Special Fund. During FY 1996, 79.7

percent of informal conferences were held within the required 45 days, a decline from the 91 percent reported in FY 1995. The sharp reduction in the timeliness of Longshore processing of initial Conference Requests was caused by the government shutdown in January, 1996. Timeliness is measured from the date the requests are received by Longshore, so aging backlogs developed during the shutdown period. Therefore, performance levels could not be regained due to those backlogs and to the higher priority work that had to be done once the shutdown ended.

Longshore has scored consistently well above its own internal timeliness goal for processing conference requests; even the lower level performance level in FY 1996 exceeded the internal standard.

Coal Mine Workers (ESA)

The Black Lung Benefits program provides monetary compensation and medical and survivor benefits to coal miners who are totally disabled by pneumoconiosis caused by their employment. When no responsible mine operator can be assigned liability, or when coal mine employment ceased before 1970, benefits are paid from the Black Lung Disability Trust Fund.

The Black Lung Benefits program provided monthly benefits to 64,501 beneficiaries while 16,762 beneficiaries received medical benefits only. In FY 1996, the program continued its high level of performance by issuing 99 percent of initial findings on claims on a timely basis.

Employment and Training Programs

One of the broad goals of the Department is to advance the future of America's working men and women by promoting improvements in their training and by fostering changes in skill levels to expand future job choices.

Over the past several years, there has been a growing recognition and agreement by practitioners and policy makers at all levels that today's array of Federal workforce development programs, while well intended, do not effectively meet the needs of today's economy, and need to be replaced by more coherent and systematic approaches. To this end, in Fiscal Year 1996 the Congress considered job training reform legislation, including the President's proposed G.I. Bill for America's Workers and several Congressional proposals. The President's proposal would have, among its reforms, consolidated youth and adult training programs, provided reliable, useful data for indi-

viduals to use to make their own training and career choices, established One-Stop Career Centers, restructured youth programs around the school-to-work concept, and created funding incentives to reward desirable results. Despite bipartisan agreement on many of the key concepts in the President's proposal, the Congress was unable to complete action on the legislation because of differences on some important issues such as funding for dislocated workers and continuation of school-to-work grants. The Administration is committed to pursuing job training reform through One-Stop Career Centers and School-to-Work system-building grants, through waiver authority available under Fiscal Year 1997 appropriations law, and through possible future legislation.

Most employment and training programs operate on a July through June program year. For these programs, the data displayed represents the latest available preliminary information or the best estimates for Program Year (PY) 1995, ending on June 30, 1996. For all other programs, the data displayed reflects the latest available preliminary information or the best estimates for Fiscal Year 1996, ending on September 30, 1996.

In FY 1996/PY 1995, the Department had a number of noteworthy accomplishments that will contribute greatly to these new systems. In PY 1995, the Departments of Education and Labor awarded School-to-Work (STW) Opportunities Implementation grants to another 19 States, which brought to 27 the total number of States implementing revised school-to-work systems statewide. States, yet to receive implementation funds, continue to have access to Development grants to continue their system-building efforts. Also, 52 Local Partnerships were funded in PY 1995 along with 53 Urban/Rural Poverty grants, 18 Native American grants, and 7 grants to Territories. The quality of applications received this year compared with the first round of competition in 1994 showed the considerable progress States and localities have made developing STW systems.

Likewise, the Department continues its multi-year investments in the One-Stop Career Center System. This initiative, recognized as an important cornerstone of the Department's strategy to build a consolidated workforce development system, helps States transform a fragmented array of employment and training programs into an integrated service delivery system for job seekers and employers. By the end of PY 1995, all States were either implementing One-Stop systems in the first or second year of funding, or engaged in planning and developing their One-Stop systems. Within the 16 States operating under implementation grants, individual workers and employers in about 100 communities are easily able to get help and information about jobs, their skill requirements, job search assistance, available training and related services, and information on the quality of training institutions in the local and State labor markets. During PY 1995, 23 States were awarded planning and development grants to aid them in the initial phases of One-Stop system building. Additionally, 10 local learning -laboratories were funded in PY 1995 to test different customer service, design, and technology features of One-Stop Career Centers. The primary objective during the next few years will be to assist all States and localities with technological developments and technical assistance to achieve full implementation of the One-Stop Career Center System.

Other noteworthy accomplishments included: progress in implementing nationwide the Worker Profiling and Reemployment Services to provide dislocated workers with early intervention assistance to help speed their return to work; providing technical advice and guidance to the National Skill Standards Board on the development of a national, voluntary skill standards system; measurably improving the quality and outcomes for most

programs; further streamlining agency processes to maintain or increase workload while decreasing overall staffing; and significant progress towards ensuring our customers have the best quality employment and training services available, and using customer feedback for continuous program improvement.

ADULT AND YOUTH PROGRAMS (ETA)

During PY 1995, ending June 30, 1996, approximately $1.1 billion in Federal funds were distributed to State governments to provide training and other services to economically disadvantaged adults and youth. By law, States retain twenty-three percent of the Adult funds and eighteen percent of the Youth funds for Statewide activities; and distribute the balance to the 647 Service Delivery Areas (SDAs). These programs offer basic skills and job training and support services. Private Industry Councils (PICs) composed of business, labor, and other community leaders direct local Job Training Partnership Act (JTPA) programs. PIC members are appointed by local elected officials. An estimated 517,710 participants were served in adult and youth programs in PY 1995, a decrease of 117,435 from the previous program year.

SUMMER YOUTH PROGRAM (ETA)

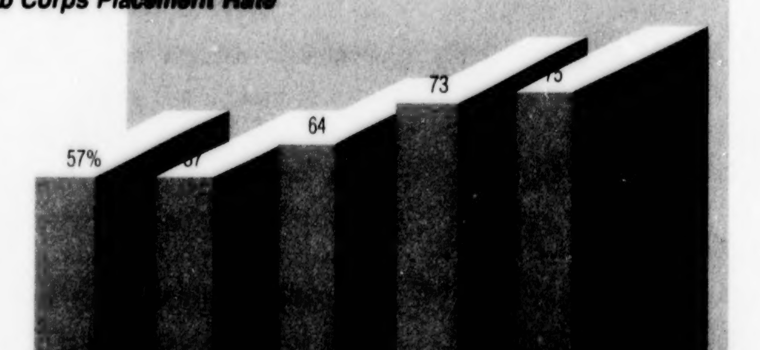
In addition to gaining work experience, summer youth program participants are evaluated to determine if they meet local educational standards. Those who do not, may be enrolled in remedial education as part of their summer program. It is hoped the extra education will provide the basic skills needed for academic success during the regular school year.

Under the Title IIB Summer Youth employment and training program, $625 million were available for the summer of 1996. About 409,439 youth were working in Federally financed summer jobs, about 85,800 fewer than in the summer of 1995. Two major reasons for the decrease are: 1) delay and uncertainty in funding, and 2) transfer authority for Service Delivery Areas to move funds from the summer program to the year-round youth training grants program.

JOB CORPS (ETA)

The Job Corps program is a highly intensive, primarily residential training program for severely disadvantaged youth aged 16 through 24. Enrollees are offered housing, food, medical care, education, vocational training and support services. The program prepares them for stable, productive employment, and/or entrance into vocational and technical schools, junior colleges and other institutions for further education and training.

Job Corps Placement Rate



In PY 1995, a total of $1.1 billion was available to fund 110 centers serving approximately 68,540 new enrollees in 46 States, Puerto Rico and the District of Columbia. These centers are operated by private contractors, and the Departments of Interior and Agriculture, for thirty Civilian Conservation Centers.

The percentage of Job Corps enrollees placed in jobs, schools, or the military after completion of the program was 75 percent in PY 1995, compared to 73 percent in PY 1994.

APPRENTICESHIP TRAINING (ETA)

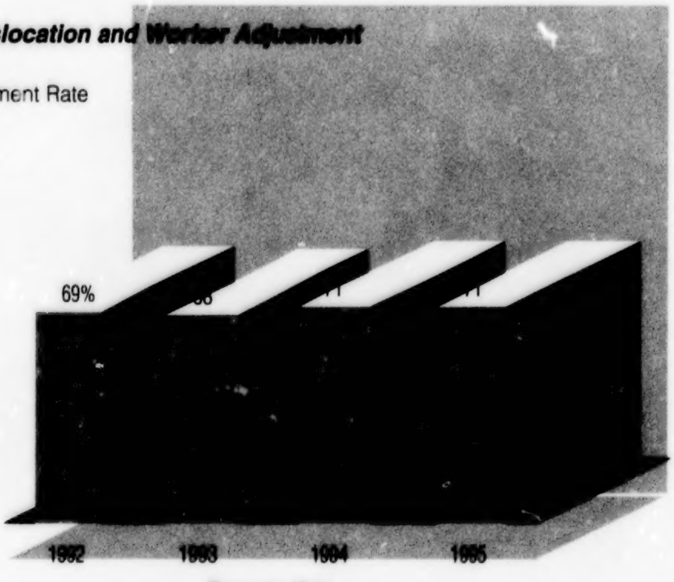
Although apprenticeship training is not federally funded, ETA's Bureau of Apprenticeship and Training promotes apprenticeship and allied training in various industries, recommends and approves apprenticeship program standards, registers apprentices, and provides technical assistance to program sponsors. About 367,700 apprentices had been registered by the end FY 1996, an increase of 3.4 percent over the 355,000 registered in Fiscal Year 1995.

ASSISTANCE FOR DISLOCATED WORKERS (ETA)

Eighty percent of the appropriation under the Economic Dislocation and Worker Adjustment Assistance (EDWAA) program is provided to States through formula-funded block grants. The remainder of the funds are awarded to States, on an as needed basis, to enable them to respond to specific dislocation events, including defense and Clean Air Act related dislocations, which they could not address with their existing resources. EDWAA funds are used to provide training and reemployment assistance to dislocated workers — those losing jobs through plant closings and mass layoffs — and unemployed individuals with little prospect of returning to their previous occupations. It is estimated that approximately 508,660 dislocated workers were served in PY 1995 up from 410,440 in PY 1994.

Trade Adjustment Assistance provides job readjustment services, including skills and remedial training, job search, relocation assistance and income support to workers who lost their jobs because of increasing trade imports. In FY 1996, $96.6 million was provided to States and was used to enroll an estimated 32,000 workers in classroom or on-the-job training and pay job search allowances and relocation allowances to an estimated 650 and 800 individuals, respectively. Another $19.1 million was provided for similar assistance under the North American Free Trade Agreement, primarily for classroom or on-the-job training for an estimated 2,300 workers.

Economic Dislocation and Worker Adjustment Assistance
Entered Employment Rate



Special Employment and Training Programs (ETA)

These special activities include native Americans, migrant and seasonal farmworkers, homeless, and older worker programs. These programs offer basic skills training, job training and support services to these special targeted groups.

Native American Programs are designed to provide a wide range of job training and support services to Indians and other Native Americans to improve their employability and help them secure permanent employment. For PY 1995, the program was funded at $59.8 million and served some 18,000 participants, excluding those served under P.L. 102-477. It is estimated that half of participating adults and youth were placed in employment after their participation.

The Migrant and Seasonal Farmworker Program helps migrant and seasonal farmworkers and their families by providing training and supportive services to those seeking stable year-round employment at a liveable wage and by improving the living standard of those who remain in the agricultural market. In PY 1995, this program was funded at $79.9 million and served approximately 40,500 participants with a preliminary entered-employment rate of 73.9 percent.

The Older Americans Program, authorized by the Older Americans Act, provides subsidized part-time work opportunities in community service activities for unemployed low-income persons aged 55 and over. One major objective is to obtain unsubsidized employment for at least 20 percent of the available positions. This objective has been reached consistently. For PY 1995 ending June 30, 1996, $396 million was used to finance about 64,600 positions, in which an estimated 97,500 individuals worked during the year.

Employment Services (ETA)

The U.S. Employment Service seeks to match individuals seeking employment with employers seeking workers. It is funded primarily through Federal taxes paid by employers into the Unemployment Trust Fund. Employment Service programs operated by States are authorized by the Wagner-Peyser Act of 1933, as amended. It operates in over 1,800 local offices in the fifty States, Puerto Rico, Virgin Islands, District of Columbia and Guam. State Employment Services also administer programs through reimbursement agreements with the Department of Labor, such as the Alien Labor Certification Program. In PY 1995, about $839 million was provided to States for basic Employment Service operations, and 18.5 million job applicants sought employment services, slightly down from 18.8 million in PY 1994. During PY 1995, 5.9 million job openings were received, a decrease from the 6.6 million received the previous program year.

The total number of individuals who entered employment in PY 1995 was 3.2 million. Total individuals placed in permanent jobs (150+ days) in PY 1995 was 1.8 million.

Veterans' Programs (VETS)

The Office of the Assistant Secretary for Veterans' Employment and Training (OASVET) develops and promotes training and employment opportunities for the Nation's veterans with special emphasis placed on assisting disabled and Vietnam era veterans. To help accomplish these goals, the OASVET administers two major veterans' programs through the Veterans' Employment and Training Service (VETS): the Disabled Veterans' Outreach Program (DVOP) and the Local Veterans' Employment Representative (LVER) program. In FY 1996, $148 million was available to State Employment Security Agencies (SESAs) for staffing these two programs. These funds were sufficient to fund about

1,536 DVOP and 1,326 LVER positions. VETS also enforces SESAs' compliance with regulations requiring priority to be given to veterans for all services.

VETS administers the Veterans' Reemployment Rights (VRR) program, as authorized by the Uniformed Services Employment and Reemployment Rights Act of 1994 (USERRA), to protect the reemployment rights and related job benefits of veterans, Reservists and National Guard members. VETS staff investigate complaints and mediate resolutions of cases between the protected individual and the employer.

The ratio of VRR cases closed within 90 days to the total number closed is a key performance measure. FY 1992 performance data reflect the impact of large increases in VRR workloads due to the large numbers of veterans returning from Operation Desert Storm. The workload has since diminished, and significant improvement in cases resolved within 90 days was achieved until FY 1996. The protracted problems in the FY 1996 appropriations process and consequent negative impacts on staffing resulted in diminished performance with respect to the Assistant Secretary's Performance Agreement goal of closing 85 percent of all active cases within 90 days.

In PY 1995, State Job Service Agencies, including the DVOP/LVER staff, registered 2.187 million veterans — a decline from previous years. VETS assumes the decline is due to an improving economy, continued relatively high performance by the Job Service agencies for veterans (as compared to non-veterans), and the consequent low unemployment figures. The percentage of veterans referred to jobs declined slightly, as did the percentage of veterans for whom placement transactions were accomplished, but improvement was shown in the success of the Job Service in assisting veterans in entering employment compared to the success rate for non-veterans. In FY 1996, a veteran assisted by the Job Service was 50 percent more likely to enter employment than was a non-veteran assisted by Job Service. DVOP/LVER staff helped 328,000 veterans into jobs during the program year, a decrease of 6 percent, attributable to the 7 percent decrease in the number of DVOP/LVER staff.

A key statistic not included in the current performance measures is the relatively high proportion, 28.3 percent, of special disabled and disabled veterans helped into jobs, which at 24.6 percent, exceeds even the rate achieved for all veterans. This achievement reflects the greater priority for services and the case management approach used by Job Service agencies.

Transition Assistance Program

Beginning in FY 1992, VETS began administering the Transition Assistance Program (TAP) on a nationwide basis. TAP provides three-day workshops for service members who are within 180 days of ending active duty who want to participate in these preparatory workshops, to aid transition to the civilian labor market. Workshops are delivered at approximately 200 military installations in the continental United States. The percentage of all annual separatees who participate in the workshops has increased steadily, probably due in part to the publication of a study that showed that participants obtain their first civilian job an average of three weeks sooner than do non-participants.

National Veterans Training Institute

The National Veterans Training Institute (NVTI) is a service-provider, staff-training academy administered by VETS through a competitively awarded contract with the University of Colorado at Denver. Specifically authorized by legislation, the NVTI exists to provide professional skills training to DVOP, LVER, VETS and other service providers' staff to enhance their abilities to meet veterans' needs. The NVTI offers a multi-

course curriculum delivered in both residential and distance learning modes. The FY 1996 increase in the total number trained is largely attributable to a higher proportion of non-residential course deliveries. The decrease in the number and proportion of DVOPs and LVERs trained is attributable to the substantial decrease in total DVOP/LVER staffing, emphasis on training Job Service agency managers on case management techniques, and increased proportions of Department of Defense civilian staff who help deliver TAP workshops in TAP facilitator training.

Employment of People with Disabilities

The mission of the President's Committee on Employment of People with Disabilities (PCEPD) is to facilitate the communication, coordination and promotion of public and private efforts to enhance the employment of people with disabilities. The President's Committee provides information, training and technical assistance in support of the Americans with Disabilities Act (ADA) and the Rehabilitation Act of 1973, as amended, to America's business leaders, organized labor, rehabilitation and service providers, advocacy organizations, families and individuals with disabilities.

The major goal of the President's Committee is to lead the effort to eliminate employment barriers to people with physical, mental and communications disabilities. The President's Committee accomplishes this goal by making available to various groups, a wide assortment of educational and informational materials and by providing technical assistance to businesses.

- The **Job Accommodation Network** (JAN) The President's Committee established JAN, a toll- free telephone and on-line bulletin board service for employers, people with disabilities, and rehabilitation professionals that provides information about accommodations for employees with disabilities. In FY 1996, JAN answered 45,000 calls, resulting in people with disabilities either being hired or retained in their current employment. Additionally, JAN established a web-site on the Internet where callers download JAN publications. This web-site experienced over 560,000 'hits' in the first year of operation. JAN's data collection efforts continued to document the reality that job accommodations for workers with disabilities are not expensive. JAN's data indicates that for every dollar spent by an employer for a job accommodation, the employer reports a savings of $29.00.

- **Workforce Recruitment Program** - The President's Committee, in cooperation with the Department of Defense, coordinated the recruitment for paid summer internships for college students with disabilities. Nine major Federal agencies collaborated on this project. Recruiters visited over 90 colleges and universities to interview students with disabilities. The President's Committee profiled 797 students and circulated their resumes to hundreds of managers and supervisors who hired 151 of them. Many of those students who graduated from college this past year and were hoping to find permanent employment were converted into permanent employees or stayed in temporary positions until permanent positions became available.

- **National Disability Employment Awareness Month** (NDEAM) Project - The theme for the 1996 National Disability Employment Awareness Month was "Ability for Hire." The President's Committee took an innovative and cost effective approach in FY 1996 in producing materials to support the program. A dual-purpose educational and public relations kit was developed and distributed, which allowed the Committee to use material for the ADA anniversary as well as to use the information throughout the year in support of many Committee projects. Approximately 35,000 kits were produced and distributed throughout the United States and beyond U.S. borders. The kit covered topics such as: cost and benefits of accommodations, diversity and disabilities, information on what business really thinks about the ADA, information about workplace laws, insurance and benefits, myths about people with disabilities, and other resource materials.

- **The National Business Leadership Network** (BLN) - The Business Leadership Network is a business-led initiative designed to stimulate best disability employment practices. This program engages the leadership and participation of employers in the hiring process to enable qualified individuals with disabilities to enter and succeed in the workforce. There are currently eight pilot sites operating BLNs - Colorado, Florida, Indiana, Massachusetts, Michigan, Oregon, Texas and Wisconsin. Additionally, start-up activities began in California, Georgia, Louisiana, Ohio and Wyoming. Two new publications, a Disability Employment Practices guide and the Business Leadership Trends bulletin were designed and published in FY 1996.

- **High School/High Tech (HS/HT) Project** - This project provides students with disabilities opportunities to explore their interest in pursuing careers in technology-related occupations. In FY 1996, the President's Committee succeeded in establishing five new HS/HT programs serving an additional 150 students with disabilities. These new centers are located in Cocoa Beach, Florida; Cleveland, Ohio; Houston, Texas; San Mateo, California; and Tillman, Oregon. Four of these new sites work in conjunction with various NASA programs. The Committee continued to support the seven existing HS/HT sites which provided services to 775 students interested in high-tech career fields.

- **Demographics Initiative** - The President's Committee forged a commitment with the Census Bureau and the Bureau of Labor Statistics (BLS) to work toward the routine collection, analysis and publication of data on the employment of people with disabilities. This commitment is designed to bring full attention to the employment of people with disabilities - most notable in the regular employment tracking system of BLS. This commitment manifested itself in the support of these two agencies to debunk the myth of the Current Population Survey (CPS), which wrongfully indicated an ever-decreasing trend in the employment of people with disabilities and to replace this misleading data with accurate data contained in the Survey of Income and Program Participation (SIPP). The President's Committee, with the assistance of both BLS and the Census Bureau, announced this shift with a press release highlighting the SIPP data, which revealed that approximately 800,000 more severely disabled persons were working in 1994 than in 1991. BLS and the Census Bureau agreed to research questions that will enable disability employment data to be collected in their monthly employment data runs.

- **National Minority Initiative** - The President's Committee conducted a forum for approximately 30 leaders of civil rights and minority organizations which addressed the critical employment issues facing minority persons with disabilities. This issue is crucial because the unemployment rate for African-Americans with disabilities is 66% and is 59% for Hispanics with disabilities. This coalition of leaders agreed to develop strategies to better involve minority organizations in addressing the employment problem of minorities with disabilities.

Labor, Employment and Pension Standards

The Department also has responsibilities for the administration and enforcement of laws that protect wages, pensions, other benefits and workplace rights of America's workers. The Department's broad goal to create better jobs includes programs to promote pension and benefit security and to protect employee freedoms of equality and opportunity in the workplace. In FY 1995, the Department continued vigorously to enforce minimum wage and overtime pay requirements, child labor laws, nondiscrimination by Federal contractors, rules concerning the rights of unions, and efforts to protect certain private pensions and workforce benefit plans.

Labor-Management Standards (ESA)

The Office of Labor-Management Standards (OLMS) administers and enforces provisions of the Labor-Management Reporting and Disclosure Act of 1959, as amended (LMRDA) and related laws which protect union democracy, financial integrity, and certain rights of union members. Through its new Statutory Programs Unit, OLMS also administers the employee protection provisions of the Intermodal Surface Transportation Efficiency Act and the Airline Deregulation Act's Airline Rehire Program.

OLMS was formerly a program component of the Office of the American Workplace (OAW) responsible solely for the LMRDA program. Following elimination of the OAW in FY 1996, OLMS was restructured to include the OAW Statutory Programs unit. This newly constituted OLMS, which consolidates the LMRDA and statutory employee protections programs, was

transferred to ESA as a single program agency in October 1996.

In administering the LMRDA program, OLMS has three primary statute-based goals: (1) to ensure that the reports required of unions and others under the law are available for public disclosure; (2) to resolve union member complaints concerning union officer elections and other matters pertaining to safeguards for union democracy, as required by law; and (3) to protect union financial integrity by enforcing safeguards established in law.

In administering responsibilities of the Department of Labor under Federal transit law, the OLMS Statutory Program Unit ensures that fair and equitable arrangements protecting mass transit employees are in place before the release of Federal transit grant funds.

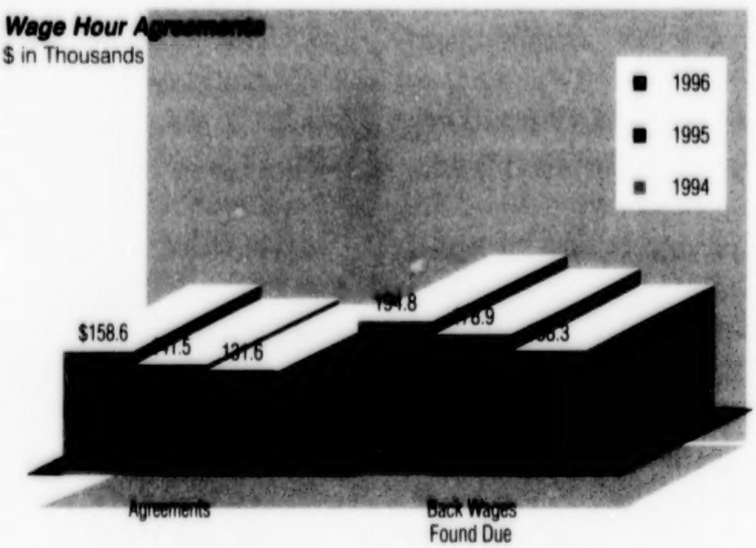
Labor - Management Reporting and Disclosure Act (LMRDA) Program

The provisions of the LMRDA and related laws administered and enforced by OLMS apply primarily to private and Federal sector labor unions, union officers and employees, employers, and labor relations consultants. OLMS is responsible for enforcement programs covering approximately 36,000 labor organizations.

To ensure democracy and fiscal integrity in labor organizations OLMS completed 299 criminal investigations. In addition, 143 indictments and 132 convictions resulted from OLMS criminal investigations referred for prosecution, primarily union funds embezzlement cases. At the end of FY 1996, 161 additional criminal cases were pending at the Department of Justice or with local prosecutors and 301 such cases were pending completion in OLMS field offices. OLMS also completed 500 compliance audits in intermediate or local unions and one in an international union to uncover union funds embezzlement and other violations of the LMRDA.

OLMS processed approximately 31,676 reports filed by labor unions, union officers, union employees, employers, labor consultants and surety companies and made those reports available for public disclosure. OLMS provided copies of 29,608 filed labor organization reports in response to some 8,500 disclosure requests.

In the civil enforcement area, OLMS received and investigated 194 union officer election complaints; supervised remedial officer elections in 40 labor unions; and investigated union member complaints alleging improper imposition of a trusteeship in 18 unions.



Employee Protections Program

The employee protection provisions of the Intermodal Surface Transportation Efficiency Act require that arrangements be made to protect certain rights of mass transit employees affected by federal grant funds used for the acquisition, improvement, or operation of a transit system. The OLMS Statutory Programs Unit is responsible for assuring the protection of approximately 311,500 transit workers nationwide.

To ensure that the required protections were in place in FY 1996, Statutory Programs completed 1,200 urban transit program certification actions and 530 rural transit program certification actions. The office also processed 73 claims submitted by individuals and/or unions alleging violation of the terms and conditions of employee protections certified by the agency.

Staff of the Statutory Programs Unit responded to about 100 program inquiries in connection with the Airline Rehire Program established pursuant to the Airline Deregulation Act.

Wage and Hour (ESA)

The Wage and Hour Division administers and enforces a wide range of laws that collectively cover virtually all private, state and local government employment. In FY 1996, Wage and Hour conducted 41,484 compliance actions under the purview of the Fair Labor Standards Act (FLSA) and 1,835 government contract actions. Employers agreed to pay 83.1 percent of the monetary findings under the FLSA and government contract programs in FY 1996. This is significantly greater than last year's 79.1 percent, which is the highest rate of recovery since FY 1991. Agreements to pay totaled $131.6 million compared to $158.3 million in monetary findings.

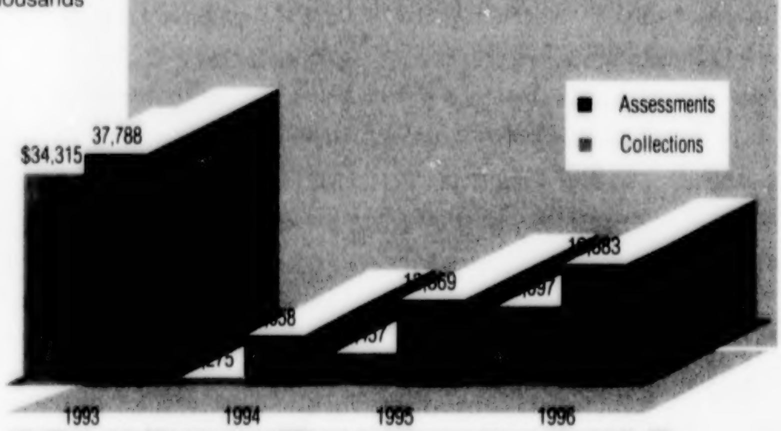
Federal Contract Compliance Programs (ESA)

The Office of Federal Contract Compliance Programs (OFCCP) enforces regulations that require Federal contractors to take affirmative action, to eliminate discrimination from the workplace and to obtain redress for its victims. In FY 1996, 3,476 compliance reviews of Federal contractors were completed and 473 complaints were investigated and resolved. A total of $22 million in financial agreements were obtained, including back wage agreements of $8.2 million for 4,203 workers. The number of workers in facilities reviewed was 1.4 million.

Pension and Welfare Benefits Administration (PWBA)

The Pension and Welfare Benefits Administration (PWBA) is responsible for administering Title I of the Employee Retirement Income Security Act (ERISA) of 1974, as amended and certain portions of the Federal Employee Retirement System Act of 1986 (FERSA). PWBA's responsibili-

Pension and Welfare Benefits Administration Fines and Assessments Collected
$ in Thousands



* FY 1993 data includes $32.6 million as part of PWBA's grace period filing program which expired December 31, 1992.

ties include regulation, enforcement and research to protect six million private sector employee benefit plans covering approximately 150 million people and controlling more than $3 trillion in assets.

During FY 1996, in implementing the Government Performance and Results Act (GPRA), PWBA completed a draft 5-year strategic plan covering FY 1998 through FY 2002, along with annual performance plans beginning in FY 1999. To establish the foundation for this strategic plan, the agency established a preliminary set of performance measures. In doing this, PWBA conducted a thorough and comprehensive reexamination of its data collection efforts to ensure that the performance being measured and reported provided the most thorough and accurate picture possible of PWBA's accomplishments in protecting the employee benefits of the American people. The draft strategic plan is currently in its final stages of review by agency management. Upon finalization, this document will provide these revised performance measures which we expect will be reported beginning with the FY 1997 consolidated financial statements.

In FY 1996, PWBA continued to prioritize its responsibilities to attain the goals outlined in the Secretary's performance agreement with the President along with the ensuing goals assigned to the Assistant Secretary. PWBA realized successful initiatives in safeguarding workers' retirement and assisting the public. To assist in the crucial area of safeguarding the integrity of workers' pension plans, PWBA instituted a nationwide enforcement effort to protect savings held in contributory retirement plans, most notably 401(k)-type plans. This resulted in more than 1,300 investigations and over $12 million restored to these plans. Additionally, PWBA issued a regulation decreasing the number of days employers may hold employee contributions to 401(k) and other pension plans covered by Title 1 of ERISA. In another initiative, approximately $5 million in delinquent contributions were restored to the plans of 16,800 workers as a result of PWBA's pension payback program.

In service to customers, PWBA introduced a number of public outreach and education initiatives, targeting workers as well as employers, to raise public awareness of issues affecting the security of retirement savings and to complement the enforcement program by providing workers information to help them better monitor their retirement savings.

PWBA's delinquent filer voluntary compliance program (DFVCP), in its second year, continues to encourage compliance with certain reporting and disclosure provisions of ERISA in exchange for reduced penalties. In FY 1996 the agency received over 5,500 delinquent filings along with $10.2 million in penalty payments associated with this program. PWBA's 502(c)(2) civil penalty pilot project, initiated in the previous year, was renewed as an ongoing program. It was designed to leverage resources better by assigning selected PWBA staff to represent routine civil penalty cases going before administrative law judges rather than referring these cases to the Office of the Solicitor. To date, PWBA staff have been assigned 264 of these cases, 62 of which have been closed by settlement, dismissal or withdrawal.

As a result of field enforcement efforts, monetary results to employee benefit plans (assets restored and prohibited transactions reversed) totaled approximately $407.3 million, with approximately $348.4 million achieved through voluntary compliance and $58.9 million through litigation. Additionally, PWBA's national office and field offices assessed civil penalties totaling nearly $20 million.

The agency established its civil penalty assessment program in FY 1991 under provisions of ERISA Sections 502(c)(2), 502(i) and 502(l).

WORKER SAFETY AND HEALTH

Among the more visible components of the Department's mission is the responsibility to protect employee safety and health on the job. In FY 1996, the Department's worker safety and health programs continued to conduct on-site inspections, standards development and promulgation, training, and technical and compliance assistance.

OCCUPATIONAL SAFETY AND HEALTH ADMINISTRATION (OSHA)

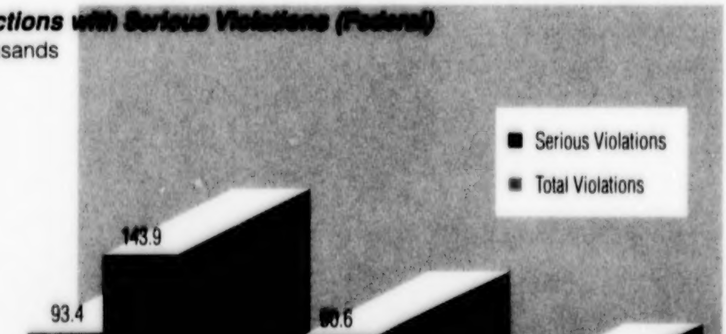
The Occupational Safety and Health Administration (OSHA) is responsible for enforcing the Occupational Safety and Health Act of 1970 (Public Law 91-596.) The OSH Act authorizes the agency to enforce safety and health standards through inspections of workplaces and to foster voluntary compliance by employers through on site consultation, training, education and information services, partnerships, and Voluntary Protection Programs. The OSHA program is administered by the National Office, 10 regional offices, and 93 area offices. OSHA also makes 50 percent matching grants to assist 25 states in administering and enforcing safety and health standards under approved State programs. The Agency covers more than 100 million workers at more than six million workplaces.

During FY 1996, OSHA conducted 24,024 Federal enforcement inspections, a decrease of 18 percent from FY 1995. State plan personnel conducted 57,199 worksite inspections, a decrease of more than 7 percent. Funding interruptions during the year contributed to these decreases. Both the Federal and State enforcement programs have been shifting emphasis from regulation to results by offering incentives to employers who choose partnership with OSHA through the implementation of effective safety and health programs. Traditional enforcement continued for employers who declined partnerships.

OSHA continued to improve its penalty collection rates. At the end of FY 1996, the Federal program had collected 66 percent of penalties categorized as "collectible" during that fiscal year. The collection rate was 85 percent for FY 1995, 89.4 percent for FY 1994, 91.4 percent for 1993, and 93.6 percent for 1992. Over time, OSHA expects that the collection percentages for each year will approach 100 percent.

OSHA's reform efforts include a streamlining of its rulemaking activities. This strategy involves identifying clear priorities, focusing on key building-block rules, eliminating outdated standards, and emphasizing business-labor partnerships. In FY 1996, final standards were promulgated for: engulfment hazards in grain handling; consolidation of carcinogens; corrections for personal protective equipment standards; personal protective equipment for shipyards; reorganization of construction and shipyard standards; 1,3-butadiene;

Inspections with Serious Violations (Federal)
In Thousands



and methylene chloride. Proposals published included: powered industrial truck operator training for construction; quick fixes (problem regulations); means of egress; and tuberculosis.

OSHA continued stringent enforcement efforts against employers who willfully neglected the safety and health of their employees. The number of cases designated as egregious or involving significant penalties (over $100,000) rose sharply, from 125 in FY 1995 to 165 in FY 1996. The Federal program completed 2,885 investigations of complaints filed under sections 11(c)and 405, alleging discriminatory actions against employees for exercising rights afforded them by the Act. State programs completed 1,183 discrimination investigations.

Consistent with its partnership initiatives, OSHA continued to explore ways to encourage cooperation between workers and employers and to promote voluntary compliance programs. Under the consultation program, the agency funds 90 percent of the costs incurred by designated State agencies to provide free on site consultation to employers who request assistance in achieving voluntary compliance. Under this program, 19,795 on site consultation visits were conducted in FY 1996, a decrease of 12 percent from 1995. Funding interruptions during the year affected the total number of visits. The average number of hazards found in initial consultation visits has increased generally from FY 1992-1996. In FY 1996, OSHA funded 26 targeted training grants.

Through its Voluntary Protection Program, OSHA grants special recognition to companies that have exemplary safety and health programs. The number of worksites participating in this program reached 265 in FY 1996. The OSHA Training Institute in Des Plaines, Illinois emphasized the training needs of Federal and state compliance officers, and reflected newly promulgated standards. Eight educational institutions functioned as OSHA Training Institute Education Centers to provide OSHA courses for the private sector and other Federal agencies.

In FY 1996, OSHA implemented the collection of establishment/site specific injury and illness data. This system will greatly improve OSHA's ability to measure injury, illness and fatality rates and to target inspections of the most hazardous worksites. As part of the data collection effort, OSHA is conducting a program to monitor the quality of employers' injury and illness records.

In cooperation with the Department's Bureau of International Labor Affairs (ILAB), OSHA continued its activities in universal worker protection under the Memorandum of Understanding with Mexico, and with other international counterpart agencies, particularly in Eastern Europe.

Mine Safety and Health Administration (MSHA)

The mission of MSHA is to achieve the purpose of the Federal Mine Safety and Health Act of 1977 (Mine Act): making the first priority and concern of all in the mining industry the health and safety of its most precious resource — the miner. All of MSHA's resources are dedicated to ensuring, as much as possible, that each of the 341,000 men and women who work in America's 13,800 mines will go to their jobs secure in the knowledge that they will not have to place themselves at risk of loss of life or limb to make a living.

MSHA works in partnership with the American mining community to eliminate causes of fatalities, reduce the frequency and severity of accidents, and minimize health hazards associated with mining. The Mine Act requires MSHA to inspect every underground mine four times each year and all surface mines two times each year to determine compliance with Federal safety and health standards. In carrying out other legislative mandates contained in the Mine Act, MSHA also: (1) conducts additional inspections of gassy mines; (2) conducts spot inspections of mines with particularly hazardous conditions; (3) investigates mining accidents; (4) investigates and refers acts of criminal wrongdoing to the Department of Justice for prosecution; (5) investigates discrimination complaints; (6) assesses and collects civil penalties; (7) provides education and training assistance; (8) tests mining equipment for safety; (9) compiles and analyzes accident and injury data; (10) provides technical assistance to the mining industry; and (11) promulgates mandatory safety and health standards.

Since the passage of the Mine Act, MSHA has made significant strides in reducing the number of fatalities in mining; however, much remains to be done in reducing lost-time accidents and work-related illnesses.

America's miners are the most productive in the world and supply both U.S. industries and overseas markets with high-grade coal, metal and non-metal products. Yet along with this high productivity, and despite progress in the safety arena, many of these men and women daily face the dangers of death, injury and occupational disease. Each year, some 100 miners die in job-related accidents and another 8,402 are seriously injured. One miner dies for every five million hours worked. While these numbers make America's mines among the safest in the world, they are unnecessarily and unacceptably high. Nonetheless, MSHA knows safety is an achievable goal because the majority of U.S. mines operate for years without fatalities and many mines have no lost-time accidents year in, and year out.

There is no reason why we cannot further improve health and further increase safety so that none of this country's miners need to face the risk of death and disease as a part of their jobs. This can be done by systematically reducing and eliminating known risks and hazards through the enforcement of mine safety and health laws, increasing educational efforts, and increasing the commitment of all interested parties to prevent accidents and injuries. Such a commitment is made through the combined efforts of all in the mining community, miners (families of miners), mine operators, mine companies, mine owners, mine contractors, mineral owners, and MSHA.

The mining industry is as diverse and complex as the whole of American industry itself. It ranges from giant mining sites with thousands of miners

working around the clock, to small mine operations where a few miners work to extract a living from the earth.

The mining industry has changed dramatically over the past 10 years. The days of static corporate structures with large, stable mining companies have changed. Many mines now operate with contractors performing virtually every task both above and below the ground. Because of this, MSHA's efforts must continue to evolve to meet the ever changing conditions of ownership and operation.

In FY 1996, MSHA's primary goal was to reduce or hold stable the fatal and non-fatal, lost-time injury rates for the mining industry. Throughout history, mine explosions have numbered among the most devastating accidents in the coal industry, and most of the Nation's worst mining disasters have occurred during the winter months. To convey this message to the mining community, MSHA conducts annual campaigns to warn the Nation's underground coal miners of the increased potential for mine explosions due to methane build-up and loose coal dust. FY 1996 was no exception as the Agency conducted its Winter Alert Program for bituminous coal mines. Because anthracite coal mines have conditions that present greater danger from explosions during the warm months, MSHA conducted its second annual Summer Alert Program urging that segment of the coal industry to pay extra attention to preventive measures.

Another source of potentially devastating fatal accidents involves mine waste structures that impound water. The above-average rainfall and flooding in some key mining regions contributed to increased concern about the integrity of these structures and the possible danger to surrounding communities. Although compliance with impoundment safety standards is checked during regular inspections, MSHA accelerated reviews at those impoundments where people could be at risk if a dam broke. Fortunately no failures occurred in FY 1996.

As a means of addressing higher fatality rates among independent contractors, MSHA continued to pursue partnership agreements with mining companies tailored to individual needs and circumstances. As part of these agreements, MSHA provides detailed injury and compliance information on independent contractors who perform work on mine property to determine if the companies act responsibly with respect to violations involving the contractors. The first of MSHA's three agreements has been in place for about a year, and early results look promising. The overall rate of lost-time injuries has been running below the national average and the number of violations declined by 26 percent. The proportion of serious violations dropped from 46 percent to 35 percent.

With the use of diesel equipment in underground coal mines on the rise, miners are faced with increased risks from explosions, fires, and toxic exhaust gases. Federal safety rules for equipment in underground coal mines had focused mainly on electrically powered machines until MSHA completed new requirements, published in October 1996, on diesel-powered equipment. To help assure a safe work environment, the new rules fall into three categories: equipment design and testing, safety standards, and monitoring of exhaust gases. With adequate safety precautions, diesels can be used safely in underground coal mines.

In FY 1996, MSHA sought to reduce or hold stable the fatality rate at small underground coal mines through its small mine safety program, which included the dissemination of information about injuries and fatalities at small mines. During meetings with miners, discussions focused on the occupations and activities most often involved in accidents in an effort to make the miners more aware of what practices and activities were safe or unsafe. More recently, the Agency has focused much of its attention on mines employing fewer than 20 miners because, historically, these operations have had very high incidence rates. Since April 1996, training activities at small mines have been conducted using MSHA's mine emergency command vehicle as a mobile classroom. An estimated 1,000 miners have received accident awareness training in this vehicle.

Another goal was to reduce recurring accidents and injuries and high incidence illnesses. Several interim steps necessary for achieving this goal were completed in FY 1996. A relational database has been established that more readily identifies trends in recurring accidents and injuries. This information will allow MSHA to decide how many and what kind of resources should be focused on such accidents and injuries. Another accident investigations database which will yield more detailed information is being installed for testing.

One of the greatest current threats for recurring injuries involves powered haulage accidents. In FY 1996, a comprehensive analysis of surface haulage accidents identified customer, freight and water truck drivers as at-risk occupations and highlighted equipment defects and condition acceptance as the most common contributing factors to 1995 fatalities. The Agency launched a special effort in July to warn miners and mine operators about the dangers faced by customer and delivery drivers entering mining sites and operating in an environment that may be unfamiliar to them. Workshops, safety conferences, and safety meetings were held throughout the Nation, often at mine sites for small groups and individual miners. These efforts reached over 13,000 miners.

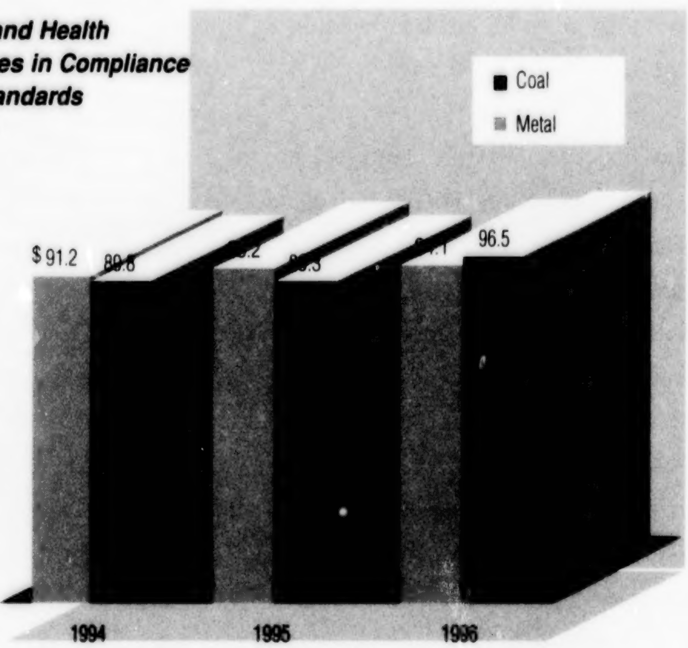
In FY 1996, MSHA continued to focus attention on its health programs aimed at preventing occupational illnesses. Coal worker's pneumoconiosis and silicosis, two disabling and sometimes fatal lung diseases, still plague miners. To address the full range of respirable dust issues and make recommendations for elimination of the diseases, the Secretary appointed a Federal advisory committee of national experts in FY 1996. The committee completed its deliberations and released its report on November 21, 1996.

MSHA also began a special program to encourage the adoption of improved techniques to control crystalline silica exposure in underground coal mines. Participating mine operators may try innovative methods to control quartz dust without penalty for failure to achieve results. Experimentation will continue until an effective combina-

tion of techniques is identified. This program supplements MSHA's regular, ongoing program of respirable dust sampling to determine compliance with respirable dust standards.

Finally, MSHA increased emphasis on health and safety training and education. MSHA emphasized mine health and safety training by increasing the availability of education and training products focused on current health and safety issues. Examples include programs addressing dust and silicosis hazards and surface haulage; programs to improve skill levels of industry instructors; improved communication capabilities and emphasis on sharing information with industry instructors, including numerous technical publications, video tapes, and graphic materials. MSHA is utilizing its mine emergency command vehicle as a mobile classroom to take small mine safety training to the miners in their local communities. Additionally, MSHA increased access to training materials by providing computers and training to each state grantee in the use of the INTERNET. Use of electronic communication and data access has reduced administrative costs, produced a means of advertising grantee and MSHA services, and improved the quality of training programs and materials.

Mine Safety and Health Sampled Mines in Compliance With Dust Standards
$ in Thousands



STATISTICS

The Bureau of Labor Statistics (BLS) is the principal fact-finding agency for the Federal Government in the field of labor economics and statistics. BLS provides sensitive statistical and economic data in areas identified for economic research and statistical fact-finding by Congress, other Federal agencies, State Governments, business, and labor. Most data come from voluntary responses to surveys of businesses or households conducted by BLS staff, by the Bureau of the Census (under contract), or cooperation with State agencies.

BLS data play a large and important role in the development of other Federal statistics including the Gross Domestic Product and other key economic indicators. The Congress, President, Federal Reserve Board, and other executive branch agencies use these statistics in determining national economic policy. BLS data also are used by industry and labor in economic planning and collective bargaining and by other public and private institutions in a variety of planning and analytical activities. BLS data directly affect the economy. For example, the Consumer Price Index is used to adjust Social Security and

Federal civilian and military retirement payments.

EMPLOYMENT AND UNEMPLOYMENT STATISTICS

The goal of the Employment and Unemployment Statistics program is to analyze and publish accurate data on the labor force, employment and unemployment, and persons not in the labor force; labor market developments; characteristics of special worker groups, including displaced workers; and detailed employment data by occupation and industry. The Employment and Unemployment Statistics program also maintains an up-to-date "universe" file of establishments covered by the State Unemployment Insurance system, which BLS uses to draw samples for establishment-based surveys.

In January 1996, the Local Area Unemployment Statistics (LAUS) program began developing model-based labor force estimates for all States and for the New York and Los Angeles-Long Beach metropolitan areas. Previously, the Current Population Survey (CPS) estimated labor force statistics directly for 11 large States and the two metropolitan areas mentioned; however, budget reductions resulted in a CPS sample size too small to support direct estimation. The LAUS program also streamlined substate estimation procedures, which generated savings while maintaining the integrity of labor market area estimates.

At the beginning of 1996, the Employment and Training Administration informed BLS that it would continue funding the Mass Layoff Statistics (MLS) program. With this funding, BLS reinstituted a quarterly news release of MLS data in February 1996. MLS plans to begin issuing monthly news releases as well.

The Current Employment Statistics (CES) program expanded its automated collection efforts to include approximately 150,000 small employers. This is a two-year project to convert data collection activities from a traditional mail-based system to a highly automated computer-based system, which will result in additional quality improvements in the preliminary CES monthly employment data. The success and importance of the project was recognized in FY 1995 with two prestigious awards: a *Golden Hammer Award* from the National Performance Review and a $20,000 finalist award as part of the Harvard University/Ford Foundation *Innovation Award*.

The CES program also completed the first year of a two-year research program to introduce a probability-based sample that will improve data quality. Probability sampling ensures that samples properly represent the relevant universe through randomized selection techniques and rotating sample members.

PRICES AND LIVING CONDITIONS

The goals of the Prices and Living Conditions programs are to develop and to publish comprehensive measures of price change in retail and primary markets and conduct research to improve the measurement process. The data provide the essential elements to analyze price behavior and interpret price change throughout the U.S. economy.

In 1996, work continued on five of the major computer systems that need to be revised as part of the Consumer Price Index's six-year revision project. Outlet samples were selected for the 21 new areas which had a Point of Purchase Survey conducted in 1995, and pricing of these samples began in September. A Point of Purchase Survey was conducted in the remaining 15 new areas of the revised CPI area design. Two changes were made in the CPI sam-

ple rotation and substitution processes to correct a technical problem that ties an item's weight to its expected price change. In addition, the Producer Price Index program continued its work to expand coverage of service industries.

Compensation and Working Conditions

The goals of the Compensation and Working Conditions program are: to study employee compensation, using a broad range of data on workers' wages and salaries in many occupations, industries, and areas; to develop information on employee benefits and the costs employers incur in providing those benefits; to compile statistics on the occurrence of work-related occupational injuries and illnesses, and to publish data on collective bargaining and labor-management relations.

In 1996, BLS delivered to the President's Pay Agent on schedule, survey reports to administer pay for employees in 30 pay localities and the rest of the U.S. The rest of the U.S. is the 48 contiguous states less the 30 pay localities. BLS is also conducting the Service Contract Act Wage Surveys for the Employment Standards Administration (ESA) and will publish survey reports for 34 areas under contract with ESA. In addition, BLS has published 14 individual areas that are components of the rest of the United States.

BLS delivered survey results from the 1995 survey of employer provided training. This survey of employers and employees, which is funded by the Employment and Training Administration, collected information on the number of training participants, the hours and costs of both formal and informal training, industry, employment size, existence of high performance workplace practices, types of employer-provided benefits, degree of unionization, and employee turnover. This survey follows an earlier effort in 1994 that collected base line information on the existence of different types of formal training programs by industry and employment size.

In 1996, BLS published information on the number and incidence of work related injuries and illnesses that occurred during 1994, including detailed data on the more seriously injured and ill workers and the circumstances of their injuries and illnesses. This information was gathered in the expanded Survey of Occupational Injuries and Illness. Similar State-specific information is available from States and Territories that participate in this Federal/State cooperative effort. The Census of Fatal Occupational Injuries published the most complete data available on workers who were fatally injured during 1995 and on the details of the fatalities.

The Major Collective Bargaining Statistics program was eliminated in 1996 due to budget cuts. In 1995, the program added new measures of total compensation changes under replaced contracts for settlements negotiated in 1992, 1993, and 1994. Data for 1995 will be the last available for this program.

In 1996, BLS made considerable progress toward its goal of integrating three existing compensation surveys — the Occupational Compensation Survey Program, the Employment Cost Index, and the Employee Benefits Survey – into a single survey program. This integrated compensation survey will have an area-based design, with data collection in 154 metropolitan and nonmetropolitan areas selected to represent the United States as a whole. Establishment samples will be chosen in each of the collection areas and a probability selection of occupations will be chosen in each sample establishment. Information on the level of work, wages, and employer-provided benefits of the selected occupations will be captured and tabulated. In 1996, testing was conducted in six metropolitan areas to refine procedures for selecting occupations, determining level of work, and collecting wages. Initial data from these tests were published late in the fiscal year. Future work involves testing and implementing benefits collection and designing a collection update process to allow publication of both quarterly and annual statistics.

Productivity and Technology

The goals of the Productivity and Technology program are, in the domestic area, to measure and analyze productivity trends in major sectors of the economy and in individual industries, and, in the international area, to develop comparable measures of productivity, labor force employment and unemployment, hourly compensation costs, and other economic indicators for selected countries.

In 1996, output measures for all major sector measures were converted to chained annual weighted index numbers. This eliminated a source of bias associated with the previous index numbers, which assumed fixed base period prices. The Industry Productivity and Technology program published labor productivity indexes for 178 industries and multifactor productivity measures for 10 industries. This included the development of labor productivity measures for three additional industries and a multifactor productivity measure for one additional industry.

Employment Projections

The goals of the Employment Projections program are to develop information about the labor market five to 15 years into the future, including labor force trends by sex, race, and age; employment trends by industry and occupation and the implications of these trends on employment opportunities and education and training needs for youth and other specific groups in the population.

In 1996, the BLS completed and published its 1994-2005 projections of the labor force, economic trends, and employment by industry and occupation. BLS published four issues of the *Occupational Outlook Quarterly*, one issue of which focused on a graphic presentation of the 1994-2005 projections. The BLS also published an analysis of the quality of projected employment growth as measured by usual educational requirements and median earnings of occupations.

Other Departmental Programs

There are several other organizations that contribute to the accomplishment of the Department's mission. These organizations provide staff support to the Secretary in the overall management of the Department and advise the Secretary on a wide array of policy issues. Among these issues are those which affect working women, enhance productivity in the American workplace by encouraging quality management, advocating skills that match latest technologies, improving management/worker cooperation; and promoting the values, productivity potential and example of America and its workers throughout the world.

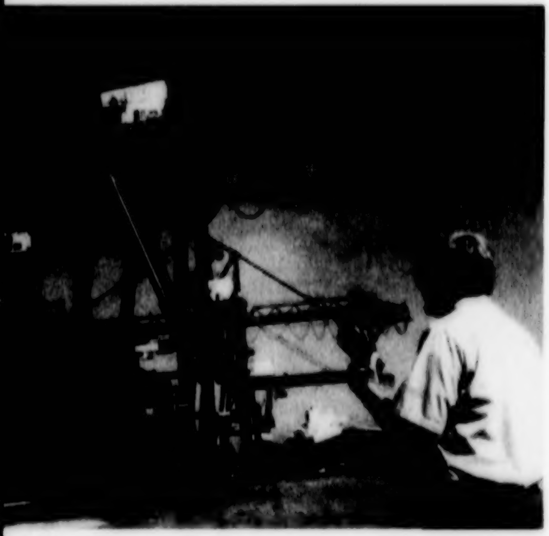
Bureau of International Labor Affairs

The Bureau of International Labor Affairs (ILAB) promotes the interests of American Workers through assistance to International Labor organizations in formulating international economic, trade and immigration policies, and by providing technical assistance.

ILAB's goal is to work for the better implementation of international labor standards (including the NAFTA labor agreement) and coordination with relevant international organizations such as the International Labor Organization (ILO), the Organization for Economic Cooperation and Development (OECD) and the World Trade Organization (WTO).

During FY 1996, ILAB has continued implementation of the North American Agreement on Labor Cooperation, successfully completing the examination of a case submitted to the National Administrative Office and continuing to organize and participate in trilateral cooperative activities. ILAB has also promoted the link between trade and labor standards by contributing substantially to the preparation and discussion of the OECD Report on Trade Employment and Labor Standards, by participating in the ILO working party on the subject, by staffing speeches on trade and labor standards and on child labor at the ILO General Conference in June 1996, and by using all appropriate bilateral and multilateral opportunities to press for establishment of a working group on trade and labor standards at the ministerial meeting of the WTO scheduled for December 1996. ILAB has also promoted implementation of international labor standards by completing its third investigative report on international child labor, this time focusing on international child labor and codes of conduct in the apparel industry.

ILAB staffed participation in the G-7 Jobs Conference in Lille, France in April 1996. The conference concluded discussion on the best policy approaches to deal with labor market problems like youth unemployment, long-term unemployment and low-



skilled (disadvantaged) workers and earnings inequality.

ILAB also worked on a Memorandum of Understanding (developed pursuant to the President's new "Transatlantic Agenda") with the European Commission, which the Secretary of Labor signed in March 1996, establishing a joint U.S.-European Union Working Group on employment and labor-related issues. At its initial workshop, the working group (which includes staff from the Employment and Training Administration and the Office of the Chief Economist) discussed labor issues of mutual concern.

During the past year, the Department of Labor has advanced U.S. policy objectives through Europe, the Middle East, Africa and Latin America through technical assistance designed to improve labor market conditions. In the Balkans, ILAB successfully initiated programs designed to help reemploy demobilized Muslim, Croat and Serb soldiers; reformed the Macedonian employment service; and began designing a program to help dislocated Romanian workers. The Saudi Arabian Government requested that ILAB complement its vocational education program with job placement assistance for graduates. The ILAB reform of the Turkish employment service retrained hundreds of service providers. In South Africa, ILAB prepared a program for developing the new Ministry of Labor's occupational safety, labor statistics and equal opportunity programs. In Latin America, ILAB's labor-management relations training contributed directly to the peace process in Guatemala. In each of these trouble spots, ILAB supported the Administration's broad objectives of achieving political democracy and market economies by addressing the labor market problems that threaten to undermine each country's transition.

WOMEN'S BUREAU

The Women's Bureau is the only Federal agency with primary responsibility for serving and promoting the interests of working women, as authorized by Public Law 66-259. The Bureau participates in the development of Federal, State and local policies and programs to benefit working women; conducts research, reviews legislation, formulates outreach programs that contribute to the development and implementation of public policy; and provides specific support and technical assistance to various targeted groups.

In FY 1996, the Women's Bureau, through its Honor Roll program, generated more than 1,300 Honor Roll pledges - exceeding its original goal of 1,200 pledges. Community organiza-

tions, private corporations (both large and small), State and local governments, and unions made a commitment to improve the lives of working women by instituting policies that will make work better for over 2,000,000 women across the country in the areas of pay and benefits, balancing work and family, and training and advancement opportunities. For example, the American Business Collaboration For Quality Dependent Care, a coalition of 21 major corporations, pledged and subsequently launched a $100,000,000 initiative to develop and strengthen child care, school-age care and elder care projects in communities across the country where their employees live and work.

The Women's Bureau held roundtable discussions with working women across the country to hear about their experiences and bring their concerns back to the Administration. Beginning in March 1996, the Director met with more than 400 women in New York, Las Vegas, Chicago, Hartford, Atlanta and Florida from low-wage earners to women leaders; union workers to contingent and down-sized workers; older workers to young women just entering the workforce.

In a major new initiative receiving widespread attention and national acclaim in FY 1996, the Bureau held "Working Women's Summits" in 20 regional cities. Each regional summit focused on a key issue of concern for working women and brought together diverse groups of people to discuss solutions to some of the most stubborn problems working women face. Over 4,000 women attended the conferences, and nearly 100 publications were prepared for distribution to participants in these summits, including the "Working-Women-Count Honor Roll Report."

In September 1996, the Women's Bureau launched the Fair Pay Clearinghouse, which provides resources to working women, employers, organizations, unions and others who are concerned with ensuring fair wage-setting practices. Through the Clearinghouse's toll free number or the Bureau's Internet address, working women, employers and others can get easily accessible, practical information on fair pay, including a nationwide database of fair pay settlements and employers who have implemented fair pay practices, state by state, and national resources, and wage data. Two new Bureau publications were also created in connection with the Clearinghouse: "Worth More Than We Earn: Fair Pay for Working Women" and "What Works: Fair Pay for Working Women."

The Working Women Summits launched the Bureau's new "Don't Work in the Dark" campaign. It is intended to alert and educate working women and men and employers about rights regarding sexual harassment, and discrimination related to pregnancy, age and the Family Medical Leave Act. The campaign also gives women facts about their status in the workforce along with tools and solutions to address some of the problems they face.

Given the impact of downsizing and displacement on working women, the Bureau added these issues to its research publications activities. The Bureau: issued a fact sheet — "What Women Need to Know About Downsizing;" commissioned research for future reports about the impact of downsizing on working women and their families and on strategies that can mitigate its impact through actions by women, unions, corporations, communities and State and Federal governments.

In addition to the special initiatives millions of customers were reached all across the country through print media, television and radio programs resulting from outreach efforts initiated by the Bureau in FY 1996. Highlights involved responding to more than 8,000 callers to the Bureau's Work and Family Clearinghouse, sponsoring nearly 150 conferences on issues facing working women, co-sponsoring Women's Equality Day Conferences around the country and increasing a general mailing list to more than 15,000.

Office of Inspector General

The Office of Inspector General (OIG) is charged with preventing fraud, waste, and abuse and promoting economy, efficiency and effectiveness in DOL programs and operations. This is accomplished through comprehensive audits and evaluations of DOL programs and activities, and investigations of suspected wrongdoing by DOL contractors, grantees, program participants or beneficiaries, and employees. The OIG also is responsible for conducting criminal investigations to eliminate the influence of organized crime and labor racketeering on employee benefit plans, labor-management relations and union affairs.

In FY 1996, the OIG issued 362 audits of DOL programs and operations and opened a total of 522 investigations: 1) into suspected wrongdoing by DOL contractors, grantees, program participants, beneficiaries, and employees; and 2) to eliminate the influence of organized crime and labor racketeering on employee benefit plans, labor-management relations and union affairs.

OIG audits questioned costs totaling $11.2 million and recommended that another $66.3 million in DOL funds be put to better use. In FY 1996, in response to current and previous OIG audit recommendations, DOL management disallowed $4 million and agreed to put $15.9 million to better use. Investigative accomplishments included 224 indictments, 189 convictions and $40.2 million in monetary results.

From a program perspective, in FY 1996, the OIG focused its attention on: the effectiveness and efficiency of DOL employment and training programs; the Department's effectiveness in protecting American workers' jobs and pensions; fraud in various DOL programs; fraud in health care programs and plans; and labor racketeering activities by traditional and non-traditional organized crime groups.

For example, from an audit perspective, the OIG identified problems and weaknesses and made recommendations for corrective action with respect to various aspects of the Foreign Labor Certification, Migrant and Seasonal

Farmworker, Defense Conversion, Senior Community Service Employment, and Job Corps programs of the Department. The OIG also made recommendations to strengthen the protections afforded to pension plan assets. In most instances, the Department agreed with these assessments and recommendations.

Also noteworthy has been OIG's work in assisting the Department's agencies to prevent fraud, waste, and abuse in their programs and operations. An example includes recent financial management training for grantees of the School-to-Work Program. The training was designed to ensure their compliance with cost principles and prevent improper charges to grants funded with Federal resources. In conjunction with the Mine Safety and Health Administration, the OIG also produced an ethics training video to ensure the integrity of mine inspectors charged with protecting the health and safety of miners.

The OIG continued its efforts to combat fraud in health care programs and plans. For example, the OIG obtained convictions in several investigations into fraud by claimants and medical providers of the Department's health care programs, in particular the Federal Employees' Compensation Act program. In addition to criminal and civil penalties, our investigations resulted in individuals being sentenced to make restitution to the Government and/or being precluded from continuing to benefit from or participate in the program. The OIG also obtained successful prosecution of health care providers and administrators that abused ERISA-covered private health and pension plans.

The OIG continued its support of the Government's effort to eradicate corruption in the Nation's four largest labor unions by providing evidence and support needed for filing Civil RICO actions by the Department of Justice. Moreover, based on reported initiatives, a congressional hearing was held on the continuing problem of organized crime influence in labor unions. OIG investigations also resulted in numerous successful prosecutions of individuals who defrauded the Unemployment Insurance and Job Training Partnership Act Programs.

Just as the OIG strives to improve Departmental programs, operations, and protections afforded to American workers, so too is it committed to improving the way it achieves its goals and objectives. For example, the OIG implemented a Strategic Plan centered around five key elements: 1) identification of the most significant issues needing OIG attention to ensure maximum program impact; 2) development of performance measures that help to ensure the quality, usefulness, timeliness, and impact of OIG work products; 3) enhancement of OIG human resources to ensure that, within its limited resources, the OIG attracts and retains high-quality employees; 4) fostering an environment for change to ensure an organizational structure that encourages and rewards continuous improvement of OIG work products; and 5) upgrading technological resources to provide employees with the necessary tools to carry-out the OIG mission. Through this commitment to continuous self-evaluation and improvement, the OIG aims to better serve the Congress, the Department, the American worker, and the taxpayer.

For more detail on specific findings, recommendations, and accomplishments resulting from audits, investigations, and evaluations, please see the OIG's Semiannual Report to the Congress.

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PRINCIPAL FINANCIAL STATEMENTS

INTRODUCTION

The principal financial statements included in this report have been prepared in accordance with the requirements of the Chief Financial Officers Act of 1990 (P.L. 101-576) and OMB Bulletin 94-01, "Form and Content of Agency Financial Statements." The responsibility for the integrity of the financial information included in these statements rests with management of the U.S. Department of Labor (DOL).

The audit of DOL's principal financial statements was performed by the Office of Inspector General. The auditors' report accompanies the principal statements.

PRINCIPAL STATEMENTS INCLUDED IN THIS REPORT

The Department's principal financial statements for fiscal years 1996 and 1995 consist of the following:

- The Consolidated Statements of Financial Position, which show on an accrual basis those resources owned which are available to pay debts or provide future services and those debts from past operations that will require payments from those resources;

- The **Consolidated Statements of Operations and Changes in Net Position**, which show on an accrual basis the financing sources and the cost of goods and services consumed in carrying out authorized activities during the year and changes in fund balances by operating and non-operating components;

- The **Consolidated Statements of Cash Flows**, which identify on an accrual basis the resources used during the year to provide for operations and the acquisition of capital assets, as well as those sources of financing made available for operations and capital acquisitions.

The principal financial statements have been prepared to report the financial position and results of operations of DOL, pursuant to the requirements of the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994. The statements should be read with the realization that they are from a sovereign entity, that unfunded liabilities reported in the financial statements cannot be liquidated without the enactment of an appropriation, and that the payment of all liabilities other than for contracts can be abrogated by the sovereign entity. While the statements have been prepared from the books and records of DOL in accordance with the formats prescribed by OMB, the statements are different from the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

FINANCIAL RESOURCES AND RESULTS OF OPERATIONS

The accompanying principal statements summarize DOL's financial position, disclose the results of operations and the changes in net position during fiscal years 1996 and 1995, and present all significant cash flows during the two fiscal years.

CHANGE IN ACCOUNTING PRINCIPLE

- As discussed in Note 1.B.3 to the financial statements, DOL changed its method of recognizing employer tax revenues and benefit payment expenses retroactive to October 1, 1994. Amounts in 1995 were restated to reflect these changes. The cumulative effect of this restatement increased DOL's net position at October 1, 1994 by $21.0 billion.

OPERATING EXPENSES

- The cost of operating DOL programs during fiscal years 1996 and 1995 was $36.6 billion and $34.2 billion respectively, an increase of $2.4 billion (7%) between fiscal years. This increase was primarily attributable to increases in the costs of DOL's unemployment insurance and disability benefit programs.

Financing sources

- Financing sources for DOL operations during fiscal years 1996 and 1995 were $41.6 billion and $41.9 billion respectively, a decrease of $.3 billion (1%) between fiscal years. Employer taxes were DOL's largest source of funds in 1996 and 1995, representing 68% of total financing sources for both years. Appropriated capital used to finance DOL programs decreased by $.9 billion (13%) in 1996, primarily due to decreases in administrative appropriations and the return of emergency unemployment compensation funds by the Unemployment Trust Fund (UTF) to the general fund of the U.S. Treasury.

Financial position

- DOL's total assets at the end of 1996 and 1995 were $67.1 billion and $61.6 billion respectively, an increase of $5.5 billion (9%). UTF investments in U.S. government securities were $ 53.9 billion and $ 47.1 billion, respectively, an increase of $6.8 billion (14%). UTF investments represented 80.3% and 76.5% of DOL's total assets for fiscal years 1996 and 1995.

- DOL's liabilities increased from $7.3 billion in 1995 to $8.0 billion in 1996, an increase of $.7 billion (10%). This increase was primarily due to a $.4 billion increase in repayable advances made to the Black Lung Disability Trust Fund by the U.S. Treasury and a $.2 billion increase in the liability for future workers' compensation benefits. The increase in the liability for future workers' compensation benefits was primarily attributable to a decrease, from 1995 to 1996, in the interest rates used to discount projected future benefit payments to their present value.

- DOL's net position increased from $ 54.4 billion at the end of 1995 to $59.1 billion in 1996, an increase of$ 4.7 billion (9%). This increase in net position was primarily attributable to the favorable operations of the UTF, which produced financing sources in excess of expenses during 1996 in the amount of $5.4 billion. Net position was decreased by the $.4 billion deficit reported in the Black Lung Disability Trust Fund during 1996.

- Future funding requirements, net of future funding sources were $1.3 billion and $.2 billion at the end of 1996 and 1995 respectively, an increase of $1.1 billion. This increase was primarily due to an increase in repayable advances from the U.S. Treasury to the Black Lung Disability Trust Fund and an increase in the liability for future workers' compensation benefits. Future funding sources available to meet future funding requirements decreased in 1996, primarily due to a decrease in net state unemployment taxes receivable.

  At the end of 1996, future funding requirements totaled $6.5 billion, including $5.1 billion in repayable advances used to finance the accumulated deficit in the Black Lung Disability Trust Fund and $1.1 billion in accrued leave and workers' compensation benefits. Future funding sources were $5.2 billion, including $3.0 billion due from other Federal agencies for workers' compensation benefits and $.9 billion in interest receivable. At the end of 1995, future funding requirements totaled $6.1 billion, including $4.7 billion in repayable advances used to finance the accumulated deficit in the Black Lung Disability Trust Fund and $.9 billion in accrued leave and workers' compensation benefits. Future funding sources were $5.8 billion, including $3.0 billion due from other Federal agencies for workers' compensation benefits, and $.9 billion in interest receivable.

PRINCIPAL STATEMENTS
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of September 30

(Dollars in thousands)	1996	Restated 1995
ASSETS		
Entity assets		
Intragovernmental assets		
Funds with U.S. Treasury (Notes 1-E and 2)	$ 7,300,917	$ 7,840,246
Inventments (Notes 1-F and 3)	53,920,106	47,111,278
Accounts receivable, net of allowance (Notes 1-G and 4)	3,406,717	3,660,367
Interest receivable	871,002	847,444
Governmental assets		
Accounts receivable, net of allowance (Notes 1-G and 4)	812,444	1,338,919
Interest receivable	3,410	4,252
Advances (Notes 1-H and 5)	72,233	90,098
Property, plant and equipment, net of depreciation (Notes 1-I and 6)	488,711	430,712
Total entity assets	66,875,540	61,323,316
Non-entity assets		
Intragovernmental assets		
Funds with U.S. Treasury (Notes 1-E and 2)	73,037	72,032
Investment (Notes 1-F and 3)	127,659	173,972
Interest receivable	2,094	3,131
Governmental assets		
Accounts receivable, net of allowance (Notes 1-G and 4)	43,045	74,962
Interest receivable	535	1,659
Total non-entity assets	246,370	325,756
Total Assets	$ 67,121,910	$ 61,649,072

The accompanying notes are an integral part of these statements

PRINCIPAL STATEMENTS
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of September 30

(Dollars in thousands)	1996	Restated 1995
LIABILITIES AND NET POSITION		
Liabilities covered by budgetary resources		
Intragovernmental liabilities		
Accounts payable	$ 4,233	$ 6,183
Other liabilities (Note 8)	142,723	19,341
Governmental liabilities		
Accounts payable	409,475	311,411
Accrued benefits (Notes 1-K and 9)	616,471	540,512
Other liabilities (Notes 8)	305,472	319,158
Total liabilities covered by budgetarv resources	1,478,374	1,196,605
Liabilities not covered by budgetary resources		
Intragovernmental liabilities		
Advances from U.S. Treasury (Note 1-J and 7)	5,111,557	4,738,057
Other liabilities (Note 8)	208,983	269,057
Governmental liabilities		
Accrued benefits (Note 1-K and 9)	135,984	149,464
Future workers' compensation benefits (Notes 1-L and 10)	889,857	700,134
Accrued leave (Note 1-M)	71,891	72,333
Other liabilities (Note 8)	105,477	125,337
Total liabilities not covered by budgetary resources	6,523,749	6,054,382
Total liabilities	8,002,123	7,250,987
Net position (Notes 1-O and 11)		
Unexpended appropriations	7,654,553	7,611,429
Invested capital	488,711	430,712
Cumulative results of operations	52,252,367	46,592,512
Future funding requirements, net of future funding sources	(1,275,844)	(236,568)
Total net position	59,119,787	54,398,085
Total Liabilities and Net Position	$ 67,121,910	$ 61,649,072

The accompanying notes are an integral part of these statements

Principal Statements
Consolidated Statement of Operations and Changes In Net Position

For the Years Ending September 30

(Dollars in thousands)	1996	Restated 1995
FINANCING SOURCES (Notes 1-C)		
Appropriated capital used	$ 6,135,062	$ 6,980,389
Revenue from other Federal agencies	2,521,210	2,554,612
Revenue from the public	1,184,323	1,179,716
Interest and assessments	3,525,927	3,077,931
Employer taxes	28,261,966	28,105,715
Penalties and other assessments	91,054	105,587
Receipts to be transferred to Treasury	(91,054)	(105,587)
Total financing sources	41,628,488	41,898,363
EXPENSES BY PROGRAM (Note 12)		
Income maintenance	29,483,406	27,105,992
Employment and training	5,776,717	5,769,752
Labor, employment and pension standards	258,400	271,516
Worker safety and health	487,846	496,064
Statistics	354,189	353,020
Other departmental programs	224,449	247,373
Total expenses by program	36,585,007	34,243,717
Excess of financing sources over total expenses	$ 5,043,481	$ 7,654,646
NET POSITION		
Beginning balance previously reported	-	26,080,046
Cumulative effect of change in accounting principle (Notes 1-B and 13)	-	21,021,516
Beginning balance as restated	54,398,085	47,101,562
Increase Increase in cumulative results of operations and future funding requirements		
Excess of financing sources over total expenses	5,043,481	7,654,646
Other	(422,902)	(1,894)
	4,620,579	7,652,752
Increase (decrease) in unexpended appropriations	43,124	(403,649)
Increase in capitalized appropriations	57,999	47,420
	4,721,702	7,296,523
Ending balance	$ 59,119,787	$ 54,398,085

The accompanying notes are an integral part of these statements

PRINCIPAL STATEMENTS
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ending September 30

(Dollars in thousands)	1996	Restated 1995
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of financing sources over total expenses	$ 5,043,481	$ 7,654,646
Adjustments affecting cash flow:		
Appropriated capital used	(6,135,062)	(6,980,389)
Decrease (increase) in assets	809,352	(564,572)
Increase (decrease) in liabilities	377,636	(479,600)
Depreciation and loss on disposition of assets	45,672	59,361
Total adjustments	(4,902,402)	(7,965,200)
Net cash provided, (used) by operating activities	141,079	(310,554)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net purchases of investments	(6,762,515)	(7,379,706)
Purchases of property and equipment	(79,140)	(90,269)
Net cash used by investing activities	(6,841,655)	(7,469,975)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net appropriations	5,788,752	6,605,754
Advances from U.S. Treasury	373,500	375,100
Net cash provided by financing activities	6,162,252	6,980,854
Net cash by operating and non-operating activities	(538,324)	(799,675)
Funds with U.S. Treasury, beginning	7,912,278	8,711,953
Funds with U.S. Treasury, ending	$ 7,373,954	$ 7,912,278
Entity	$ 7,300,917	$ 7,840,246
Non-entity	73,037	72,032
Funds with U.S, Treasury, ending	$ $7,373,954	$ 7,912,278
Supplemental Disclosure of Cash Flow Information		
Total interest paid	$ 448,483	$ 421,992

The accompanying notes are an integral part of these statements

NOTES TO FINANCIAL STATEMENTS

September 39, 1996 and 1995

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

These consolidated financial statements present the financial position and results of operations of the U.S. Department of Labor (DOL), a cabinet level agency of the Executive Branch of the United States Government. DOL, through the execution of its congressionally approved budget, operates programs under three of the major budget functions established by Congress in the Budget and Impoundment Control Act of 1974: (1) education, training, employment and social services; (2) health (occupational health and safety); and (3) income security.

DOL's financial activity is recorded in individual funds, which are combined for reporting purposes into three separate fund types:

- **Revolving Fund** - This fund type is used to account for the financing of goods or services provided by a central operation to agencies and other functions within DOL. Operations are funded on a cost reimbursement basis by the recipients of the goods or services.

- **Trust Fund** - This fund type is used to account for receipts that are held in trust and dedicated to specific purposes or for use in carrying out specific programs. The assets of trust funds may be held over a period of time and may be used to purchase revenue producing investments.

- **General (Appropriated) Fund** - This fund type is used to account for receipts not dedicated to specific purposes and expenses arising under congressional appropriations or other authorizations to spend general revenues.

DOL and the Department of the Treasury (Treasury) are jointly responsible for the operations of two of the largest funds within the reporting entity, the Unemployment Trust Fund and the Black Lung Disability Trust Fund. DOL's Employment and Training Administration (ETA) and Employment Standards Administration (ESA), respectively, are responsible for the administrative oversight and policy direction for the income security programs financed by those trust funds. Treasury acts as custodian over monies deposited into those funds and also invests amounts in excess of disbursing requirements in Treasury securities on behalf of DOL. Through agreement with Treasury, DOL consolidates the financial results of the Unemployment Trust Fund and the Black Lung Disability Trust Fund for the preparation of financial statements prescribed under Section 303(b) of the Chief Financial Officers (CFO) Act of 1990.

The Pension Benefit Guaranty Corporation (PBGC), a wholly owned Federal government corporation under the chairmanship of the Secretary of Labor, has been designated by OMB as a separate reporting entity for financial statement purposes and has been excluded from the DOL reporting entity.

The accompanying consolidated financial statements include the accounts of all funds under DOL control. All interfund balances and transactions have been eliminated. The consolidated financial statements do not include the effect of centrally administered assets and liabilities related to the Federal government as a whole, which may in part be attributable to DOL.

B. Basis of Presentation and Accounting

1. Basis of presentation

The consolidated financial statements have been prepared to report the financial position and results of operations of DOL, as required by the CFO Act of 1990, and the Government Management Reform Act of 1994. They have been prepared from the books and records of DOL, in accordance with the form and content for entity financial statements spec-

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

B. Basis of Presentation and Accounting - continued

ified by the Office of Management and Budget (OMB) in OMB Bulletin 94-01, certain supplemental provisions of OMB Bulletin 97-01 applicable to 1996 and DOL's accounting policies, as summarized in Note 1. These statements are, therefore, different from the financial reports, also prepared by DOL pursuant to OMB directives, that are used to monitor and control DOL's use of budgetary resources.

OMB Bulletin 94-01 requires the following classification of assets and liabilities on the Statement of Financial Position as follows:

- Assets should be classified and aggregated as entity and non-entity, based upon whether or not DOL has the authority to use the assets in its operations. An amount equal to non-entity assets should be recognized as a liability due to other entities.

- Liabilities should be classified and aggregated as covered by budgetary resources and not covered by budgetary resources, based upon whether or not budget authority or other resources have been made available to cover the liabilities. Liabilities covered by budgetary resources represent obligations of the government against available appropriations or other funds.

- Certain assets and liabilities should also be classified as intragovernmental and governmental. Intragovernmental assets and liabilities arise from transactions among entities within the Federal government. Governmental assets and liabilities arise from transactions with entities outside the Federal government.

OMB Bulletin 94-01 requires that agencies include in their principal financial statements a Statement of Budgetary Resources and Actual Expenses. DOL management requested and OMB granted a waiver of this requirement for 1996.

2. Basis of accounting

Under the authority of the CFO Act of 1990, the Federal Accounting Standards Advisory Board (FASAB) was established to recommend Federal accounting standards to the Secretary of the Treasury, the Director of the Office of Management and Budget and the Comptroller General, co-principals of the Joint Financial Management Improvement Project (JFMIP). Specific standards agreed upon by the three principals will be issued by the Director of OMB and the Comptroller General. Pending issuance of final accounting standards, FASAB has recommended and the JFMIP principals have agreed that agencies adopt for use in preparing financial statements an other comprehensive basis of accounting, constituted by (1) individual standards agreed to and published by the JFMIP principals, (2) form and content requirements in OMB Bulletin 94-01, (3) accounting standards contained in agency accounting policy, procedures manuals or related guidance, and (4) accounting principles published by authoritative standard setting bodies and other authoritative sources, (a) in the absence of other guidance in the first three parts of this hierarchy, and (b) if the use of such accounting standards improves the meaningfulness of the financial statements. DOL has adopted this other comprehensive basis of accounting for preparation of these financial statements.

3. Changes in accounting principle

Pursuant to the adoption of Statement of Federal Financial Accounting Standards Numbers 1 through 8 by the JFMIP principals, and the issuance of written guidance by FASAB and OMB to DOL, the Department changed its method of rec

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

B. Basis of Presentation and Accounting - continued

ognizing employer tax revenues and liabilities for benefit payment expenses. These changes were adopted retroactive to October 1, 1994. Prior year amounts in the DOL's financial statements have been restated to reflect these changes. OMB has approved the restatement of prior year amounts. (See Notes 1.C.4, 1.K and 13.)

4. Budgetary accounting

Budgetary accounting measures the appropriation and consumption of budget authority and other budgetary resources. Within DOL budget authority is derived from (1) cost reimbursement for the provision of goods or services, (2) receipts that are held in trust for use in carrying out specific purposes and programs in accordance with agreements or statutes, (3) receipts not dedicated to specific purposes and (4) congressional appropriations or other authorizations to spend general revenues.

C. Financing Sources

1. Appropriated capital used

DOL receives a portion of the funding needed to support its programs through congressional appropriations. A financing source, appropriated capital used, is recognized to the extent these appropriated funds have been consumed. Appropriations are consumed through the recognition of accrued expenses for which budgetary resources have been obligated. Accrued expenses not covered by budgetary resources do not consume appropriated capital in the period recognized, and must be funded from future appropriations. The consumption of appropriations expended to purchase capital items is recognized as appropriated capital used over the useful life of the asset, through depreciation and amortization expense.

2. Revenues

Revenues are recognized as a financing source to the extent reimbursements are payable to DOL from other Federal agencies and from the public, as a result of costs incurred or services performed on their behalf. Revenue between DOL agencies and between DOL funds is eliminated. Major sources of revenue include reimbursements due to the Federal Employees' (Workers') Compensation Special Benefit Fund (Federal Employees Workers' Compensation Fund) from Federal agencies for the costs of disability compensation and medical care provided to or accrued on behalf of their employees, and reimbursements due to the Unemployment Trust Fund from Federal agencies, state and local government entities and non-profit organizations for the cost of unemployment benefits provided to or accrued on behalf of their employees.

3. Interest and assessments

The Unemployment Trust Fund, Longshore and Harbor Workers' Compensation Act Trust Fund (Longshore and Harbor Workers' Trust Fund), District of Columbia Workmen's Compensation Trust Fund (District of Columbia Trust Fund) and Panama Canal Commission Compensation Fund receive interest revenues on fund investments. Interest revenue is recognized when earned. Interest revenue from these investments was $3,405.1 million and $2,933.3 million in 1996 and 1995, respectively.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

C. Financing Sources - continued

Interest earned on Federal funds in the possession of non-Federal entities is payable to the DOL. Non-Federal interest revenue received or due from these sources was $3.6 million and $5.6 million in 1996 and 1995, respectively.

The Longshore and Harbor Workers' Trust Fund and District of Columbia Trust Fund receive revenues from assessments levied on insurance companies and self-insured employers. Assessments are recognized as revenues when earned. Assessment revenue was $130.3 million and $138.9 million in 1996 and 1995, respectively.

4. Employer taxes

Federal and state unemployment taxes are collected from employers based on wages paid to employees in covered employment. Federal unemployment taxes are collected by the Internal Revenue Service (the collecting entity) and transferred to designated Federal accounts within the Unemployment Trust Fund (the receiving entity). State unemployment taxes are collected by each State (the collecting entity) and deposited in separate State accounts within the Unemployment Trust Fund (the receiving entity).

Federal unemployment taxes are used to pay the Federal share of extended unemployment benefits and to provide for Federal and State administrative expenses related to the operation of the unemployment insurance program. State unemployment taxes are restricted in their use to the payment of unemployment benefits.

Excise taxes are collected from coal mine operators based on the sale of coal. These excise taxes are collected by the Internal Revenue Service (the collecting entity) and transferred to the Black Lung Disability Trust Fund (the receiving entity). Transfers are based on assessed excise taxes as determined by the collecting entity. Excise taxes are used to pay disability benefits and related administrative expenses.

As discussed in note 1.B.3, DOL has changed its method of recognizing employer tax revenues within the Unemployment Trust Fund and Black Lung Disability Trust Fund, retroactive to October 1, 1994. These changes require the recognition of employer tax revenues on a modified cash basis, to the extent of cash transferred by the collecting entity to the receiving entity, plus the change in inter-entity balances between the collecting and receiving entity. Inter-entity balances represent revenue received by the collecting entity but not yet transferred to the receiving entity, as well as adjustments made by the collecting entity to previous transfers. Previously, unemployment tax revenues were recognized on an accrual basis. Tax revenues accrued at year end were based on subsequent quarter collections. Revenues from coal excise taxes were recognized on a cash basis.

In connection with the adoption of this new policy, DOL recorded a one time adjustment, reducing taxes receivable and net position by $4.4 billion, retroactive to October 1, 1994. For comparative purposes, 1995 amounts have been restated to show the effect of this change. (See Note 13.)

Under the new policy, State unemployment tax revenues were $21.8 billion and $21.8 billion in 1996 and 1995, respectively. Federal unemployment tax revenues were $5.9 billion and $5.7 billion in 1996 and 1995, respectively. Excise tax revenues were $609 million and $567 million in 1996 and 1995, respectively.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

C. Financing Sources - continued

5. Penalties and other assessments to be transferred to Treasury

Penalties levied against employers by OSHA, MSHA, ESA and PWBA for regulatory violations, ETA disallowed grant costs assessed against inactive appropriations and FECA administrative costs assessed against government corporations in excess of amounts reserved to finance capital improvements in the Federal Employees Workers' Compensation Fund are not available to the agencies for obligation or expenditure, and must be transferred to the general fund of the U.S. Treasury. These penalties and other assessments are recognized as financing sources when earned. A contra financing source, receipts to be transferred to Treasury, is also recognized.

D. Expenses

Expenses are presented in the consolidated statement of operations by major program. Depreciation and amortization, bad debts and interest expense are allocated to each major program expense, and are not shown separately, as delineated in OMB Bulletin 94-01. Expenses by object class and type are presented in Note 12.

E. Funds with U.S. Treasury

DOL cash receipts and disbursements are processed by the U.S. Treasury. Funds with U.S. Treasury represent obligated and unobligated balances available to finance allowable expenditures and restricted balances, including amounts related to expired authority and amounts not available for use by DOL. (See Note 2.)

F. Investments

DOL administers funds which are invested by Treasury in securities of the U.S. government. Funds held for ETA by Treasury in the Unemployment Trust Fund are invested in marketable and non-marketable Treasury securities. Investments are stated at cost and adjusted for amortization of premiums and discounts using the effective interest method. DOL also holds funds for investment in the Longshore and Harbor Workers' Trust Fund, the District of Columbia Trust Fund and the Panama Canal Commission Compensation Fund. These investments are stated at amortized cost which approximates market, and discounts and premiums are amortized using the straight-line method, which approximates the effective interest method. The majority of DOL's investments are in non-marketable special issue U.S. Treasury securities, redeemable on demand at their maturity value, which is equivalent to their carrying value in the Consolidated Statement of Financial Position. Special issues may be bought or sold only by Federal government agencies and trust funds. No secondary market exists for these instruments; therefore, no provision is made in the financial statements for unrealized gains or losses. (See Note 3.)

G. Accounts Receivable, Net of Allowance

The amounts due for receivables are stated net of an allowance for uncollectible accounts. The estimate of the allowance is based on past experience in the collection of the receivables and an analysis of the outstanding balances. (See Note 4.)

H. Advances

DOL makes cash advances to state employment security agencies and to grantees and contractors to provide for future DOL program expenditures. These advance payments are recorded as an asset, which is reduced when actual expenditures are reported to DOL, or estimates of unreported expenditures are accrued by DOL. (See Note 5.)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

I. Property, Plant and Equipment, Net of Depreciation

The majority of DOL's property, plant and equipment is held by Job Corps centers owned and operated by DOL through a network of contractors. DOL also maintains a departmental property system which accounts for capital equipment used by DOL management. Property, plant and equipment purchases and additions are stated at cost. Normal repairs and maintenance are charged to expense as incurred. Effective in 1996, plant and equipment and internally developed software and systems costs, including hardware, with a cost greater than $25,000 ($5,000 for the Working Capital Fund) and a useful life of 2 or more years are capitalized and depreciated. Plant and equipment and internally developed software and systems costing less than $25,000 ($5,000 for the Working Capital Fund) or having a useful life of less than 2 years, are charged to expense at the time of purchase. Previously plant and equipment with a cost greater than $5,000 and a useful life of 2 or more years and internally developed software and systems costs, including hardware, with a cost greater than $25,000 and a useful life of 2 or more years were capitalized and depreciated. Plant and equipment costing less than $5,000 or having a useful life of less than 2 years and internally developed software and systems costing less than $25,000 or having a useful life of less than 2 years, were charged to expense at the time of purchase. These changes are treated prospectively.

Job Corps center construction costs are capitalized as construction-in-progress until completed and are then classified as improvements to facilities. Leasehold improvements made at Job Corps centers and DOL facilities leased from the General Services Administration are recorded at cost and amortized over their useful lives or the term of the lease, using the straight-line amortization method.

Plant and equipment are depreciated over their useful lives using the straight-line method of depreciation. In 1996, to better reflect the economic life of major building improvements at Jobs Corps centers, the Department changed the useful life of such improvements from 10 to 40 years. This change is treated prospectively.

The following table shows the depreciation periods used for the major classes of DOL plant and equipment:

	Years
Structures, facilities and improvements	10 - 50
Furniture and equipment	5 - 24
ADP systems and software	3 - 16

Programs administered with DOL funds have acquired real and tangible property in which DOL has a reversionary interest. When this property is disposed of or no longer used for its originally authorized purpose, the reversionary interest entitles DOL to a pro rata share of the proceeds from sale or a pro rata share of the property's fair market value, if the property is retained but no longer used for DOL purposes. The pro rata share is based on the proportionate amount of DOL funds used to acquire the property. The current value of property in which DOL has a reversionary interest is not determinable. (See Note 6.)

J. Advances from U.S. Treasury

Funds are provided by Congressional appropriation, as advances to DOL's Black Lung Disability Trust Fund, as may be necessary to meet the obligations of the fund. Financing for these advances is provided through transfers from the Advances to the Unemployment Trust Fund and Other Funds appropriation. These advances are repayable with interest at a rate determined by the Secretary of the Treasury to be equal to the current average market yield on outstanding marketable obligations of the United States with remaining periods to maturity comparable to the anticipated period during which the advance will be outstanding. Advances made prior to 1982 carried rates of interest equal to the average rate borne by all marketable interest-bearing obligations of the United States then forming a part of the public debt. Outstanding advances at September 30, 1996 and 1995 bear interest rates ranging from 6.125% to 13.875%. Amounts in the trust fund shall be available, as provided by appropriation acts, for the repayment of and the payment of interest on, these repayable advances.

Interest and principal are payable to the general fund of the Treasury when the Secretary of the Treasury determines that funds are available in the trust fund for such purposes. (See Note 7.)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

K. Accrued Benefits

The accompanying financial statements include a liability for unemployment, disability and workers' compensation benefits payable under the provisions of the Social Security Act, the Black Lung Benefit Act, the Federal Employees' Compensation Act, the Longshore and Harbor Workers' Compensation Act and the District of Columbia Workmen's Compensation Act. Unemployment, disability and workers' compensation benefits authorized by these Acts are paid from designated funds administered by DOL. Within each program, DOL recognizes a liability for certain unpaid benefits, as discussed below: (See Note 9.)

1. Unemployment Trust Fund

The Unemployment Trust Fund, established under the authority of Section 904 of the Social Security Act of 1935, as amended, provides benefits to unemployed workers who meet State and Federal eligibility requirements. Regular and extended unemployment benefits are paid from State accounts within the Unemployment Trust Fund, financed by a State unemployment tax on employer payrolls. Fifty percent of the cost of extended unemployment benefits is paid from the Extended Unemployment Compensation Account within the Unemployment Trust Fund, financed by a Federal unemployment tax on employer payrolls. Unemployment benefits to unemployed Federal workers are paid from the Federal Employment Compensation Account within the Unemployment Trust Fund. These benefit costs are reimbursed by the responsible Federal agency.

DOL recognizes a liability for Federal employees' unemployment benefits to the extent of unpaid benefits for existing claims filed during the current period, payable in the subsequent period. As discussed in Note 1.B.3, DOL has changed its method of recognizing liabilities for regular and extended unemployment benefits within the Unemployment Trust Fund, retroactive to October 1, 1994. This change requires the recognition of a liability for these unemployment benefits to the extent of unpaid benefits applicable to the current period. Previously, a liability for these unemployment benefits was recognized based on estimated benefits to be paid in subsequent periods applicable to tax revenues recognized on wages earned during the current period.

In connection with the adoption of this policy, DOL recorded a one time adjustment, reducing accrued unemployment compensation benefits and increasing net position by $20.8 billion, retroactive to October 1, 1994. For comparative purposes, 1995 amounts have been restated to show the effect of this change. (See Note 13.)

2. Black Lung Disability Trust Fund

The Black Lung Disability Trust Fund, established under the authority of the Black Lung Benefit Act, provides for compensation and medical benefits for eligible coal miners who are disabled due to pneumoconiosis (black lung disease). As discussed in Note 1.B.3, DOL has changed its method of recognizing liabilities for disability benefits within the Black Lung Disability Trust Fund, retroactive to October 1, 1994. This change requires the recognition of a liability for disability benefits to the extent of unpaid benefits applicable to the current period. Previously, a liability for black lung benefits was recognized based on the present value of estimated future benefit payments. The present value of these estimated future benefit payments was $4.8 billion at September 30, 1996. In connection with the adoption of this policy, DOL recorded a one time adjustment, reducing the liability for accrued disability benefits and increasing net position by decreasing the deficit of the Black Lung Disability Trust Fund by $4.6 billion, retroactive to October 1, 1994. For comparative purposes, 1995 amounts have been restated to show the effect of this change. (See Note 13.)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

K. Accrued Benefits - continued

3. Federal Employees Workers' Compensation Fund

The Federal Employees' (Workers') Compensation Special Benefit Fund (Federal Employees Workers' Compensation Fund), established under the authority of the Federal Employees' Compensation Act (FECA), provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related occupational disease and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. The fund is reimbursed by other Federal agencies for the FECA benefit payments made on behalf of their workers. A liability for workers' compensation benefits payable by the Special Benefit Fund to the employees of other Federal agencies is accrued to the extent of unpaid benefits applicable to the current period.

The fund also provides 50% of the annual cost-of-living adjustments for pre-1972 compensation cases under the authority of Section 10(h) of the Longshore and Harbor Workers' Compensation Act and the District of Columbia Workmen's Compensation Act. As discussed in Note 1.B.3, DOL has changed its method of recognizing liabilities within the Special Benefit Fund for 10(h) payments to longshore and harbor workers and employees of the District of Columbia, retroactive to October 1, 1994. This change requires the recognition of a liability for 10(h) payments to the extent of unpaid benefits applicable to the current period. Previously, a liability was recognized based on the present value of estimated future 10(h) payments to current claimants. In connection with the adoption of this policy, DOL recorded a one time adjustment, reducing accrued liabilities for 10(h) payments and increasing net position by $34.8 million, retroactive to October 1, 1994. For comparative purposes, 1995 amounts have been restated to show the effect of this change. (See Note 13.)

L. Future Workers' Compensation Benefits

The accompanying financial statements include a liability for future workers' compensation benefits payable by DOL to its employees, to employees of the Panama Canal Commission and to enrollees of the Job Corps, as well as a liability for future workers' compensation benefits payable by the Special Benefit Fund not chargeable to other Federal agencies. The Special Benefit Fund assumes a liability for nonchargeable FECA benefits equal to the projected gross liability for future FECA benefits for all Federal agencies less the reserve credits to be charged back to those agencies. The liability includes the expected liability for death, disability, medical and other approved costs, and is determined using the paid-loss extrapolation method. This methodology yields projected annual benefit payments, which have been discounted to present value.

The interest rates utilized for discounting for fiscal year 1996 were 6.21% in 1997, 5.97% in 1998, 5.60% in 1999, 5.32% in 2000, 5.15% in 2001 and 5.10% in 2002 and thereafter. The interest rates utilized for discounting for fiscal year 1995 were 6.60% in 1996 and 7.00% in 1997 and thereafter.

The liability for nonchargeable future benefits payable is based on estimated inflation rates of 4% for medical benefits and 3.8% for death and disability benefits. The liability for all Federal agencies, including DOL, and the reserve credits to be charged back to those agencies, is based on the historical inflation rates incurred over the life of the Fund. These liabilities were based on the expected future benefit payment periods.

M. Accrued Leave

A liability for annual and compensatory leave is accrued as leave is earned and paid when leave is taken. At year end, leave balances are revalued to reflect current wages. The balance of leave earned but not taken will be paid from future funding sources.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

N. Employee Retirement Plans

Employees hired after December 31, 1983, are automatically covered by the Federal Employees' Retirement System (FERS), implemented on January 1, 1987, while employees hired prior to that date could elect to join either FERS or to remain in the Civil Service Retirement System (CSRS). For employees in FERS, DOL withholds 0.8% of gross earnings, in addition to Federal Insurance Contribution Act (FICA), and matches the withholding with an 11.4% contribution. The sum is transferred to the Federal Employees' Retirement Fund. For employees covered by CSRS, DOL withholds 7.00% of their gross earnings. This withholding is matched by DOL and the sum of the withholding and the matching is transferred to CSRS.

On April 1, 1987, the Federal government initiated the Thrift Savings Plan, which is a retirement savings and investment plan for employees covered by either FERS or CSRS. Under FERS, DOL contributes an amount equal to 1% of the employees' pay. FERS participants may contribute up to 10% of their gross pay to the plan. DOL matches 100% of the first 3% contributed and 50% of the next 2% contributed. CSRS participants may contribute up to 5% of their gross pay, but there is no departmental matching contribution. The maximum amount that either FERS or CSRS employees may contribute to the plan in a calendar year is $9,500. The sum of employee and departmental contributions is transferred to the Federal Retirement Thrift Investment Board to administer. DOL does not report in its financial statements FERS or CSRS assets, accumulated plan benefits or unfunded liabilities, if any, applicable to its employees.

DOL's total contributions for employee benefit plans during 1996 and 1995 were as follows:

(Dollars in thousands)	1996	1995
Federal Employees' Retirement System	$ 31,417	$ 30,008
Civil Service Retirement System	34,611	35,697
Social Security	18,087	17,654
Thrift Savings Plan	11,224	10,174
	$ 95,339	$ 93,533

O. Net Position

Each fund balance incorporated in DOL's net position consists of one or more of the following components:

1. Unexpended appropriations

Unexpended appropriations include the undelivered orders and unobligated balances of DOL's general (appropriated) funds. Multi-year appropriations remain available to DOL for obligation in future periods. Unobligated balances associated with appropriations that expire at the end of the fiscal year remain available for obligation adjustments, but not new obligations, until that account is closed, generally five years after the appropriations expire.

2. Invested capital

Invested capital represents U.S. Government resources invested in the DOL's assets, principally property, plant and equipment, and other capitalized assets such as leasehold improvements. Increases to invested capital are recorded when assets are acquired and decreases occur as a result of the consumption (depreciation) or disposition of capital assets.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

O. Net Position - continued

3. Cumulative results of operations

Cumulative results of operations represents the net difference between expenses and losses consuming budgetary resources and financing sources and gains providing budgetary resources of the Unemployment, Longshore and Harbor Workers' Compensation and District of Columbia Workmen's Compensation Trust Funds and the ETA and Departmental Management revolving funds during the current and prior periods.

4. Future funding requirements, net of future funding sources

Certain liabilities are not covered by and certain assets do not provide current budgetary resources. Net position has been reduced to reflect the excess of these liabilities over assets. These liabilities will require funding from future appropriations or other budgetary resources. Future appropriations will be made at the discretion of Congress.

The consolidated net position by fund component for all funds as of September 30, 1996 and 1995 is presented in Note 11.

P. Reclassifications

Certain amounts for 1995 have been reclassified to conform with the 1996 presentation of these amounts.

NOTE 2 - FUNDS WITH U.S. TREASURY

Funds with U.S. Treasury at September 30, 1996 consisted of the following:

(Dollars in thousands)	Obligated	Unobligated Available	Unobligated Restricted	Total
Entity assets				
Revolving funds	$ 12,590	$ 8,501	$ -	$ 21,091
Trust funds	8,057	213,451	-	221,508
General (appropriated) funds	4,907,324	1,709,331	441,663	7,058,318
	4,927,971	1,931,283	441,663	7,300,917
Non-entity assets				
Trust funds	-	-	(217)	(217)
General (appropriated) funds	-	-	73,254	73,254
	-	-	73,037	73,037
	$ 4,927,971	$ 1,931,283	$ 514,700	$ 7,373,954

Funds with U.S. Treasury at September 30, 1995 consisted of the following:

(Dollars in thousands)	Obligated	Unobligated Available	Unobligated Restricted	Total
Entity assets				
Revolving funds	$ 14,852	$ 56,130	$ -	$ 70,982
Trust funds	2,905	705,117	-	708,022
General (appropriated) funds	4,937,907	1,927,908	195,427	7,061,242
	4,955,664	2,689,155	195,427	7,840,246
Non-entity assets				
Trust funds	-	-	1,722	1,722
General (appropriated) funds	-	-	70,310	70,310
	-	-	72,032	72,032
	$ 4,955,664	$ 2,689,155	$ 267,459	$ 7,912,278

NOTES TO FINANCIAL STATEMENTS

NOTE 3 - INVESTMENTS

Investments at September 30, 1996 consisted of the following:

(Dollars in thousands)	Face Value	Premium (Discount)	Net Value	Market Value
Unemployment Trust Fund				
Marketable				
U.S. Treasury Bonds				
3.500% maturing November 15, 1998	$ 43,200	$ 9	$ 43,209	$ 42,471
	43,200	9	43,209	42,471
Non-marketable				
Special U.S. Treasury securities				
Certificates of indebtedness				
6.875% maturing June 30, 1997	53,849,330	-	53,849,330	53,849,330
	53,892,530	9	53,892,539	53,891,801
Longshore and Harbor Workers' Trust Fund				
Marketable				
U.S. Treasury Bills				
4.930 to 5.240% various maturities	73,145	(983)	72,162	72,162
District of Columbia Trust Fund				
Marketable				
U.S. Treasury Bills				
4.790% to 5.190% various maturities	5,615	(53)	5,562	5,562
Panama Canal Commission Compensation Fund				
Marketable				
U.S. Treasury Notes				
5.500% to 8.750% various maturities	50,166	925	51,091	50,423
U.S. Treasury Bonds				
7.500% to 14.000% various maturities	22,399	4,012	26,411	27,398
	$ 54,043,855	$ 3,910	$ 54,047,765	$ 54,047,346
Entity investments	$ 53,916,196	$ 3,910	$ 53,920,106	$ 53,919,687
Non-entity investments	127,659	-	127,659	127,659
	$ 54,043,855	$ 3,910	$ 54,047,765	$ 54,047,346

Continued

NOTE 3 - INVESTMENTS - continued

Investments at September 30, 1995 consisted of the following:

(Dollars in thousands)	Face Value	Premium (Discount)	Net Value	Market Value
Unemployment Trust Fund				
Marketable				
U.S. Treasury Bonds				
3.500% maturing November 15, 1998	$ 43,200	$ 12	$ 43,212	$ 42,120
	43,200	12	43,212	42,120
Non-marketable				
Special U.S. Treasury securities				
Certificates of indebtedness				
7.000% maturing June 30, 1996	1,978,464	-	1,978,464	1,978,464
7.125% maturing June 30, 1996	45,119,662	-	45,119,662	45,119,662
	47,098,126	-	47,098,126	47,098,126
	47,141,326	12	47,141,338	47,140,246
Longshore and Harbor Workers' Trust Fund				
Marketable				
U.S. Treasury Bills				
5.190% to 5.670% various maturities	71,070	(965)	70,105	70,105
District of Columbia Trust Fund				
Marketable				
U.S. Treasury Bills				
5.230% to 5.620% various maturities	5,550	(54)	5,496	5,496
Panama Canal Commission Compensation Fund				
Marketable				
U.S. Treasury Notes				
5.500% to 8.750% various maturities	43,329	764	44,093	43,985
U.S. Treasury Bonds				
7.500% to 11.875% various maturities	20,636	3,582	24,218	25,753
	$ 47,281,911	$ 3,339	$ 47,285,250	$ 47,285,585
Entity investments	$ 47,107,939	$ 3,339	$ 47,111,278	$ 47,111,613
Non-entity investments	173,972	-	173,972	173,972
	$ 47,281,911	$ 3,339	$ 47,285,250	$ 47,285,585

NOTE 4 - ACCOUNTS RECEIVABLE, NET OF ALLOWANCE

The primary components of DOL's accounts receivable at September 30, 1996 and 1995 are as follows:

	1996			1995
(Dollars in thousands)	**Accounts Receivable**	**Allowance**	**Total**	**Total**
Entity assets				
Intragovernmental				
Due from other Federal agencies for UCFE and UCX benefits	$ 331,383	$ -	$ 331,383	$ 303,837
FECA charges to other Federal agencies for workers' compensation benefits	3,063,426	-	3,063,426	3,027,645
Appropriations due from U.S. Treasury	-	-	-	308,200
Other	11,908	-	11,908	20,685
	3,406,717	-	3,406,717	3,660,367
Governmental				
State unemployment taxes	569,730	(485,904)	83,826	513,047
Due from reimbursable employers	350,758	(34,912)	315,846	354,408
Benefit overpayments	1,890,001	(1,488,024)	401,977	454,541
Other	42,208	(31,413)	10,795	16,923
	2,852,697	(2,040,253)	812,444	1,338,919
	6,259,414	(2,040,253)	4,219,161	4,999,286
Non-entity assets				
Governmental				
Fines, penalties and disallowed costs	139,899	(99,100)	40,799	64,986
Backwages	12,488	(10,242)	2,246	9,976
	152,387	(109,342)	43,045	74,962
	$ 6,411,801	$ (2,149,595)	$ 4,262,206	$ 5,074,248

- The Federal Employees Compensation (FEC) account within the Unemployment Trust Fund provides unemployment insurance (UI) benefits to eligible Federal workers (UCFE) and ex-service members (UCX). The FEC account is reimbursed for these payments by the responsible Federal agencies.

- FECA charges to other Federal agencies arise from workers' compensation benefits paid by DOL on behalf of other Federal agencies.

NOTE 4 - ACCOUNTS RECEIVABLE, NET OF ALLOWANCE - continued

- States reported unemployment taxes receivable at September 30, 1996 and 1995 due from employers within the states. An allowance for uncollectible taxes has been recorded based on previous collection experience.

- Benefit overpayments include UI benefits that state employment security agencies determined were paid to individuals who were not entitled to receive benefits. Also included are Black Lung Disability, Federal Employees Workers' Compensation, Longshore and Harbor Workers' and District of Columbia benefits paid to individuals who were determined ineligible to receive benefits.

NOTE 5 - ADVANCES

Advances consisted of the following at September 30, 1996 and 1995:

(Dollars in thousands)	1996	1995
Governmental		
Advances to states for UI benefit payments	$ 53,239	$ 67,087
Advances to grantees and contractors to finance future DOL program expenditures	10,070	14,551
Other	8,924	8,460
	$ 72,233	$ 90,098

NOTE 6 - PROPERTY, PLANT AND EQUIPMENT, NET OF DEPRECIATION

Property, plant and equipment consisted of the following at September 30, 1996 and 1995:

(Dollars in thousands)	1996 Cost or Basis	1996 Accumulated Depreciation/ Amortization	1996 Net Book Value	1995 Net Book Value
Structures, facilities and improvements				
Structures and facilities	$ 478,268	$ 262,611	$ 215,657	$ 182,751
Improvements to leased facilities	203,885	119,803	84,082	78,283
	682,153	382,414	299,739	261,034
Furniture and equipment				
Equipment held by contractors	159,097	139,873	19,224	18,313
Furniture and equipment	36,106	15,828	20,278	20,806
	195,203	155,701	39,502	39,119
ADP systems and software	91,891	45,436	46,455	47,313
Construction-in-progress	54,354	-	54,354	34,590
Land	48,661	-	48,661	48,656
	$ 1,072,262	$ 583,551	$ 488,711	$ 430,712

NOTE 7 - ADVANCES FROM U.S. TREASURY

Advances from U.S. Treasury to the Black Lung Disability Trust Fund during 1996 consisted of:

(Dollars in thousands)	Balance at September 30, 1995	Net Borrowing	Balance at September 30, 1996
Liabilities not covered by budgetary resources			
Borrowing from the Treasury	$ 4,738,057	$ 373,500	$ 5,111,557
	$ 4,738,057	$ 373,500	$ 5,111,557

Advances from U.S. Treasury to the Black Lung Disability Trust Fund during 1995 consisted of:

(Dollars in thousands)	Balance at September 30, 1994	Net Borrowing	Balance at September 30, 1995
Liabilities not covered by budgetary resources			
Borrowing from the Treasury	$ 4,362,957	$ 375,100	$ 4,738,057
	$ 4,362,957	$ 375,100	$ 4,738,057

- Based on current operating conditions and the statutory operating requirements of the Black Lung Disability Trust Fund, additional repayable advances will be necessary to finance future interest payments on outstanding advances. These advances represented $5.11 billion of the fund's $5.12 billion future funding requirement at September 30, 1996. If current operating conditions continue, repayment of existing and future advances will require a change in the statutory operating structure of the fund.

NOTE 8 - OTHER LIABILITIES

Other liabilities represent unearned revenues for assessments levied but not yet earned and book balance overdrafts in state benefit payment accounts, as well as anticipated collections of accounts receivable balances from grantees and contractors for disallowed costs, and net penalties receivable and other miscellaneous receipts which will revert to the U.S. Treasury when collected. All of these liabilities are current.

At September 30, 1996 and 1995, other liabilities consisted of the following:

(Dollars in thousands)	1996	1995
Liabilities covered by budgetary resources		
Intragovernmental		
Due to U.S. Treasury	$ 130,996	$ -
Unearned revenue	11,390	19,226
Advance from U.S. General Services Administration	337	115
	142,723	19,341
Governmental		
Accrued payroll and benefits	39,582	37,677
Overdrafts in benefit payment accounts	265,890	281,481
	305,472	319,158
	448,195	338,499
Liabilities not covered by budgetary resources		
Intragovernmental		
Due to U.S. Treasury	54,894	66,645
Amounts held for the Railroad Retirement Board	129,536	178,825
Deposit and clearing accounts	24,553	23,587
	208,983	269,057
Governmental		
Due to Backwage recipients	36,420	56,699
Unearned assessment revenue	33,156	35,396
Job Corps readjustment allowances and annual leave	35,901	33,242
	105,477	125,337
	314,460	394,394
	$ 762,655	$ 732,893

NOTE 9 - ACCRUED BENEFITS

Accrued benefits at September 30, 1996 and 1995, consisted of the following:

(Dollars in thousands)	1996	1995
Liabilities covered by budgetary resources		
State regular and extended unemployment benefits payable	$ 506,420	$ 432,180
Federal extended unemployment benefits payable	6	765
Federal employees' unemployment benefits payable	17,069	15,733
Disability benefits payable to Federal employees and 10(h) benefits payable	85,809	85,494
Disability benefits payable to longshore and harbor workers	4,293	3,543
Disability benefits payable to employees of the District of Columbia	368	298
Disability benefits payable to coal mine workers	2,506	2,499
	616,471	540,512
Liabilities not covered by budgetary resources		
Federal employees' unemployment benefits for existing claims due in the subsequent year	102,562	115,019
Disability benefits payable to coal mine workers requiring future funding	33,422	34,445
	135,984	149,464
	$ 752,455	$ 689,976

NOTE 10 - FUTURE WORKERS' COMPENSATION BENEFITS

The accompanying financial statements include a provision for future workers' compensation benefits payable from the Federal Employees Workers' Compensation Fund and other DOL general funds at September 30, 1996 and 1995, as follows:

(Dollars in thousands)	1996	1995
Federal Employees Workers' Compensation Fund		
FECA benefits due to eligible Job Corps enrollees and workers of DOL and the Panama Canal Commission	$ 196,439	$ 181,037
FECA benefits not chargeable to other Federal agencies	693,418	519,097
	$ 889,857	$ 700,134

NOTES TO FINANCIAL STATEMENTS

NOTE 10 - FUTURE WORKERS' COMPENSATION BENEFITS - continued

The projected future FECA liability for all Federal agencies, reduced to reflect reserve credits which will be charged back to these agencies, and liability for FECA benefits not chargeable to other Federal agencies, consisted of the following at September 30, 1996 and 1995:

(Dollars in thousands)	**1996**	**1995**
Projected gross liability for future FECA benefits	$ 17,929,163	$ 15,859,088
Less reserve credits		
U.S. Postal Service	4,936,657	4,321,445
Department of Navy	2,468,462	2,208,351
Department of Army	1,494,611	1,352,475
Department of Veterans Affairs	1,382,170	1,221,397
Department of Air Force	1,133,596	1,008,750
Department of Transportation	938,568	836,570
Tennessee Valley Authority	574,323	509,680
Department of Treasury	694,100	647,088
Department of Agriculture	541,510	509,871
Department of Justice	544,151	453,656
Department of Interior	424,930	372,260
Department of Defense, Other	642,237	590,438
Department of Health and Human Services	202,759	176,401
Social Security Administration	170,782	162,604
General Services Administration	170,275	158,675
Department of Commerce	101,503	87,545
Department of Energy	59,013	50,801
Department of State	35,587	34,979
Department of Housing & Urban Development	79,532	63,207
Department of Education	6,124	6,308
National Air and Space Administration	63,230	54,136
Environmental Protection Agency	15,560	13,427
Department of Labor	196,439	181,037
Other	359,626	318,890
	17,235,745	15,339,991
FECA benefits not chargeable to other Federal agencies	$ 693,418	$ 519,097

- The $2 billion increase in the projected gross liability for future FECA benefits from 1995 to 1996 was due primarily to the change in the interest rates used for discounting described in Note 1.L.

NOTES TO FINANCIAL STATEMENTS

NOTE 11 - NET POSITION

DOL's net position by fund type at September 30, 1996 consisted of the following:

	1996				
(Dollars in thousands)	Revolving Fund	Trust Fund	General Fund	Elimi-nations	Total
Unexpended appropriations					
Unobligated balance available	$ -	$ -	$ 1,781,390	$ -	$ 1,781,390
Unobligated balance unavailable	-	-	432,337	-	432,337
Undelivered orders	-	-	5,440,826	-	5,440,826
Total unexpended appropriations	-	-	7,654,553	-	7,654,553
Invested capital	12,926	14	475,771	-	488,711
Cumulative results of operations					
Unemployment Trust Fund					
Federal accounts	-	14,353,325	-	-	14,353,325
State accounts	-	37,813,756	-	-	37,813,756
	-	52,167,081	-	-	52,167,081
Longshore and Harbor Workers' Trust Fund	-	67,530	-	-	67,530
District of Columbia Trust Fund	-	5,322	-	-	5,322
Other	10,264	2,170	-	-	12,434
Total cumulative results	10,264	52,242,103	-	-	52,252,367
Total fund balance	23,190	52,242,117	8,130,324	-	60,395,631

(Continued)

NOTE 11 - NET POSITION - continued

(Dollars in thousands)	1996 Revolving Fund	Trust Fund	General Fund	Eliminations	Total
Total fund balance					
(from previous page)	$ 23,190	$ 52,242,117	$ 8,130,324	$ -	$ 60,395,631
Future funding requirements, net of future funding sources					
Future funding requirements					
Future workers' compensation benefits	(3,099)	-	(889,857)	3,099	(889,857)
Advances from U.S. Treasury	-	(5,111,557)	-	-	(5,111,557)
Accrued benefits	-	(135,984)	-	-	(135,984)
Accrued annual leave	(1,533)	-	(70,358)	-	(71,891)
Other	(492)	(162,692)	(152,947)	1,671	(314,460)
Total future funding requirements	(5,124)	(5,410,233)	(1,113,162)	4,770	(6,523,749)
Future funding sources					
Due from Federal agencies for UCFE and UCX benefits	-	259,057	-	-	259,057
Due from Federal agencies for workers' compensation benefits	-	-	3,050,132	(492)	3,049,640
Due from reimbursable employers for unemployment compensation	-	315,846	-	-	315,846
Net state unemployment taxes receivable	-	83,826	-	-	83,826
Net benefit overpayments receivable	-	388,704	13,273	-	401,977
Interest receivable	-	871,971	2,441	-	874,412
Other	4,418	132,325	130,682	(4,278)	263,147
Total future funding sources	4,418	2,051,729	3,196,528	(4,770)	5,247,905
Total future funding requirements, 12 net of future funding sources	(706)	(3,358,504)	2,083,366	-	(1,275,844)
	$ 22,484	$ 48,883,613	$ 10,213,690	$ -	$ 59,119,787

NOTE 11 - NET POSITION - continued

DOL's net position by fund type at September 30, 1995 consisted of the following:

(Dollars in thousands)	1995 Revolving Fund	Trust Fund	General Fund	Eliminations	Total
Unexpended appropriations					
Unobligated balance available	$ -	$ -	$ 1,991,722	$ -	$ 1,991,722
Unobligated balance unavailable	-	-	509,080	-	509,080
Undelivered orders	-	-	5,110,627	-	5,110,627
Total unexpended appropriations	-	-	7,611,429	-	7,611,429
Invested capital	13,016	15	417,681	-	430,712
Cumulative results of operations					
Unemployment Trust Fund					
Federal accounts	-	11,807,865	-	-	11,807,865
State accounts	-	34,647,848	-	-	34,647,848
	-	46,455,713	-	-	46,455,713
Longshore and Harbor Workers' Trust Fund	-	66,969	-	-	66,969
District of Columbia Trust Fund	-	5,386	-	-	5,386
Other	62,509	1,935	-	-	64,444
Total cumulative results	62,509	46,530,003	-	-	46,592,512
Total fund balance	75,525	46,530,018	8,029,110	-	54,634,653

(Continued)

NOTES TO FINANCIAL STATEMENTS

NOTE 11 - NET POSITION - continued

(Dollars in thousands)	1995 Revolving Fund	Trust Fund	General Fund	Elimi-nations	Total
Total fund balance					
(from previous page)	$ 75,525	$ 46,530,018	$ 8,029,110	$ -	$ 54,634,653
Future funding requirements, net of future funding sources					
Future funding requirements					
Future workers' compensation benefits	(732)	-	(700,134)	732	(700,134)
Advances from U.S. Treasury	-	(4,738,057)	-	-	(4,738,057)
Accrued benefits	-	(149,464)	-	-	(149,464)
Accrued annual leave	(1,533)	-	(70,800)	-	(72,333)
Other	(519)	(214,221)	(180,692)	1,038	(394,394)
Total future funding requirements	(2,784)	(5,101,742)	(951,626)	1,770	(6,054,382)
Future funding sources					
Due from Federal agencies for UCFE and UCX benefits	-	270,786	-	-	270,786
Due from Federal agencies for workers' compensation benefits	-	-	3,025,436	(519)	3,024,917
Due from reimbursable employers for unemployment compensation	-	354,408	-	-	354,408
Net state unemployment taxes receivable	-	513,047	-	-	513,047
Net benefit overpayments receivable	-	436,065	18,476	-	454,541
Interest receivable	-	849,434	2,262	-	851,696
Other	2,109	181,033	166,528	(1,251)	348,419
Total future funding sources	2,109	2,604,773	3,212,702	(1,770)	5,817,814
Total future funding requirements, net of future funding sources	(675)	(2,496,969)	2,261,076	-	(236,568)
	$ 74,850	$ 44,033,049	$ 10,290,186	$ -	$ 54,398,085

Notes to Financial Statements

NOTE 12 - EXPENSES BY OBJECT CLASS AND TYPE

Expenses are presented in the consolidated statement of operations by major program. Presented below are expenses for 1996 and 1995 by object class and type.

(Dollars in thousands)

	1996	1995
1. Expenses by object classification		
Personnel and benefits	$ 951,361	$ 978,209
Travel and transportation	34,498	48,603
Communications, utilities and rentals	259,318	277,008
Other services	301,895	312,407
Supplies, materials and small equipment	47,652	47,892
Grants, subsidies and contributions	8,351,759	8,300,513
Interest	448,483	421,992
Benefits and other payments	25,131,470	23,460,364
Depreciation and amortization	39,198	57,341
Loss on disposition of assets	6,474	2,020
Bad debts	1,012,899	337,368
	$ 36,585,007	$ 34,243,717
2. Expenses by type		
Operating	$ 11,005,054	$ 10,361,361
Benefit payments	25,131,470	23,460,364
Interest	448,483	421,992
	$ 36,585,007	$ 34,243,717

NOTE 13 - CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE

The cumulative effect of the change in accounting principle discussed in Note 1.B.3., retroactively applied to net position at October 1, 1994, consisted of the following:

(Dollars in thousands)	Future Funding Requirements, Future Funding Net of Sources	Results Cumulative of Operations	Total
Net change in accrued taxes receivable	$ (4,399,584)	$ -	$ (4,399,584)
Net change in accrued unemployment benefits	-	20,800,989	20,800,989
Net change in accrued Black Lung disability benefits	4,585,331	-	4,585,331
Net change in accrued 10(h) disability benefits	34,780	-	34,780
	$ 220,527	$ 20,800,989	$ 21,021,516

SUPPLEMENTARY SOCIAL INSURANCE INFORMATION

Supplementary social insurance information is presented outside the principal financial statements for purposes of additional analysis and is not necessary for presentation of financial position or results of operations in conformity with OMB Bulletin 94-01 and Departmental accounting policies.

This information is presented for the Department's two principal social insurance funds, the Unemployment Trust Fund and the Black Lung Disability Trust Fund. The information presented represents current services estimates of receipts, outlays, surpluses, and deficits from 1997 through 2002 consistent with the President's 1998 Budget of the United States Government.

U.S. Department of Labor
Supplemental Financial Information
Estimated Program Financing and Cost
Unemployment Trust Fund
As of September 30, 1996

(Dollars in thousands)	1997	1998	1999	2000	2001	2002
Balance, start of year	$ 54,012,154	$ 6,1071,323	$ 67,335,132	$ 72,255,974	$ 76,414,338	$ 80,260,520
Receipts						
State unemployment taxes	23,517,000	24,496,000	25,638,000	26,550,000	27,350,000	28,070,000
Federal unemployment taxes	5,920,000	5,976,000	4,961,000	4,617,000	4,630,000	4,707,000
General revenue appropriations	130	220	270	220	170	160
Interest	3,595,126	3,893,361	4,061,808	4,128,422	4,279,071	4,380,539
Collections from Federal employers	612,000	604,000	608,000	621,000	694,000	679,000
Deposits by the Railroad Retirement Board	28,000	67,000	125,000	130,000	92,000	71,000
	33,672,256	35,036,581	35,394,078	36,046,642	37,045,241	37,907,699
Outlays						
State unemployment benefits	22,385,000	24,266,000	25,709,000	26,973,000	28,051,400	29,139,233
State administrative costs	3,357,496	3,634,185	3,881,007	4,013,116	4,149,476	4,257,447
Federal administrative costs	164,981	169,422	173,344	176,155	179,462	181,793
Interest on tax refunds	3,402	3,434	2,708	2,458	2,374	2,359
Federal employees' unemployment benefits	607,000	603,000	610,000	625,000	717,000	666,000
Railroad unemployment insurance trust fund	95,208	96,731	97,177	98,549	99,347	100,572
	26,613,087	28,772,772	30,473,236	31,888,278	33,199,059	34,347,404
Balance, end of year	$ 61,071,323	$ 67,335,132	$ 72,255,974	$ 76,414,338	$ 80,260,520	$ 83,820,815

U.S. Department of Labor
Supplemental Financial Information
Estimated Program Financing and Cost
Black Lung Disability Trust Fund
As of September 30, 1996

(Dollars in thousands)	1997	1998	1999	2000	2001	2002
Balance, start of year	$ -	$ -	$ -	$ -	$ -	$ -
Receipts						
Excise taxes	604,000	613,000	626,000	639,000	652,000	665,000
Repayable advances from the general fund	394,207	394,000	394,000	392,000	387,000	382,000
Interest	2,000	2,000	2,000	2,000	2,000	2,000
	1,000,207	1,009,000	1,022,000	1,033,000	1,041,000	1,049,000
Outlays						
Disabled coal miners benefits	488,872	466,817	454,127	441,375	426,559	412,674
Administrative costs	46,335	48,183	49,873	51,625	53,441	55,326
Interest on advances	465,000	494,000	518,000	540,000	561,000	581,000
	1,000,207	1,009,000	1,022,000	1,033,000	1,041,000	1,049,000
Balance, end of year	$ -	$ -	$ -	$ -	$ -	$ -
Repayable advances due to general fund						
Balance, start of year	$ 5,111,557	$ 5,505,764	$ 5,899,764	$ 6,293,764	$ 6,685,764	$ 7,072,764
Repayable advances from the general fund	394,207	394,000	394,000	392,000	387,000	382,000
Balance, end of year	$ 5,505,764	$ 5,899,764	$ 6,293,764	$ 6,685,764	$ 7,072,764	$ 7,454,764

Based on current operating conditions and the statutory operating requirements of the Black Lung Disability Trust Fund, additional repayable advances will be necessary to finance future interest payments on outstanding advances. If current operating conditions continue, repayment of existing and future advances will require a change in the statutory operating structure of the fund.

U.S. Department of Labor

Office of Inspector General
Washington, D.C. 20210

ASSISTANT INSPECTOR GENERAL'S REPORT

TO THE HONORABLE
CYNTHIA A. METZLER
ACTING SECRETARY OF LABOR

The *Chief Financial Officers Act of 1990* (CFO Act) requires agencies to report annually to Congress on their financial status and any other information needed to fairly present the agencies' financial position and results of operations. To meet the CFO Act reporting requirements, the United States Department of Labor (DOL), a Department of the United States Government, prepares annual financial statements, which we audit.

The objective of our audit is to express an opinion on the fair presentation of DOL's Fiscal Years (FYs) 1996 and 1995 consolidated financial statements.

Our objective also is to obtain an understanding of the Department's internal control structure and test its compliance with laws and regulations that could have a material effect on the financial statements.

Except as discussed in the scope restriction section below, our work was performed in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin 93-06, *Audit Requirements for Federal Financial Statements*. We believe that our audits provide a reasonable basis for our opinion.

As required by OMB Bulletin 94-01, *Form and Content of Agency Financial Statements*, Note 1 to the financial statements describes the accounting policies used by the Department to prepare the financial statements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

RELATIONSHIP TO THE SINGLE AUDIT ACT

The financial statements for the years ended September 30, 1996 and 1995 include:

- Expenses for grants, subsidies, and contributions primarily with various state and local governments and nonprofit organizations, in the amounts of $7.4 and $6.8 billion, respectively;
- Expenses for unemployment benefits incurred by state employment security agencies in the amounts of $22.7 and $21.6 billion, respectively;
- Contributions by states of state unemployment taxes of $21.5 and $21.6 billion (as restated), respectively;
- Net receivables for state unemployment taxes and benefit overpayments of $.8 and $1.2 billion (as restated), respectively; and
- Reimbursements from state, local, and nonprofit reimbursable employers in the amounts of $1.2 and $1.2 billion (as restated), respectively, for unemployment benefits paid on their behalf.

Our audits included testing these expenses, financing sources, and balances at the Federal level only. Pursuant to a mandate by Congress, the examination of these transactions below the Federal level is primarily performed by various auditors in accordance with the *Single Audit Act of 1984* and OMB Circulars A-128 and A-133. The results of those audits are reported to the Federal entity, which is responsible for audit resolution.

SCOPE RESTRICTION

In accordance with the *Social Security Act*, the *Federal Unemployment Tax Act*, and the *Black Lung Benefits Revenue Act of 1977*, the United States Treasury collects Federal unemployment and coal taxes, places the collections in trust funds for the DOL, and maintains the documentation supporting the amounts collected.

We were unable to obtain independent verification or to otherwise satisfy ourselves as to the fair presentation of Federal unemployment and coal tax amounts stated in the financial statements. The DOL does not have authority to require Treasury to provide access to their records for audit, and neither Treasury nor GAO has performed audits of these taxes.

Unverified amounts are as follows:

- Federal unemployment tax revenue of $5.9 and $5.7 billion (as restated) for Fiscal Years 1996 and 1995, respectively;
- Coal tax revenue of $.6 and $.6 billion for Fiscal Years 1996 and 1995, respectively.

Opinions on Financial Statements

We have audited the accompanying consolidated statement of financial position of the United States Department of Labor as of September 30, 1996 and 1995, and the related statements of operations, changes in net position, and cash flows for the years then ended. Also, we have audited the individual financial statements of the funds referred to above as of and for the year ended September 30, 1996. In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to obtain independent verification of the tax revenues described above, the financial statements referred to above present fairly, in all material respects, in conformity with the accounting policies described in Note 1:

- the financial position of the DOL as of September 30, 1996 and 1995,
- the results of operations, changes in net position, and cash flows of the DOL for the years ended September 30, 1996 and 1995, and
- the financial position of the individual funds, referred to above, as of September 30, 1996 and their results of operations and changes in net position for the year then ended.

Overview of the Reporting Entity and Other Supplemental Information

Our audits were made for the purpose of forming an opinion on the 1996 and 1995 consolidated financial statements of the DOL and the financial statements of the individual funds referred to above. The information in the Overview of the Reporting Entity and Supplemental Information sections of the Department's annual financial statements is not a required part of the financial statements. Such information has not been subjected to the procedures applied in the audits of the consolidated financial statements and individual financial statements and, accordingly, we express no opinion on it. This information is addressed in our assessment of internal control discussed below.

Report on Internal Control Structure

In planning and performing our audit of the aforementioned financial statements, we obtained an understanding of the internal control structure. The objective was to determine our auditing procedures for the purpose of expressing an opinion on the financial statements, and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We identified certain conditions involving DOL's internal control structure and its operation that we consider to be material weaknesses[1] or other reportable conditions[2] under standards established by the American Institute of Certified Public Accountants (AICPA). We have summarized these conditions below.

MATERIAL WEAKNESSES

We identified the following conditions that we believe are material weaknesses.

Wage and Hour's Civil Monetary Penalty (CMP) and Back Wage Systems

In our FY 1993 and FY 1995 audits, we made several recommendations pertaining to Wage and Hour's CMP and back wage activities. The problems that resulted in these recommendations continue to exist. The recommendations address the need for improvements in the accounting and collection of CMPs and back wage agreed-to-pay amounts, as well as the need to distribute back wage collections to the affected employees or reverting the funds to Treasury.

Back wages are tracked by both national and regional systems, which do not agree as to the

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[1] A material weakness is a reportable condition in which the design or operation of one or more internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements or performance measurement information being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

[2] A reportable condition is a matter coming to our attention related to a significant deficiency in the design or operation of the internal control structure that, in our judgment, could adversely affect the Department's ability to record, process, summarize, and report financial or performance data consistent with the assertions of management in the financial statements and reported performance measurement information.

amount of cash payments received or cash balances pending disbursement to employees. In addition, the activity recorded in these systems does not agree to supporting case file documentation, and there are no procedures calling for routine reconciliations. Our FY 1996 audit further identified that Fair Labor Standards Act (FLSA) assessments were not properly recognized as revenue in accordance with Federal accounting requirements.

While a CMP tracking system is being developed (currently being tested at one test site), it was not complete as of September 30, 1996.

Allowance for Uncollectible Accounts

In our FY 1995 audit, we recommended that the Chief Financial Officer ensure that procedures were established for reassessing reserves for uncollectible accounts in accordance with Statement of Federal Financial Accounting Standard (SFFAS) No. 1.

Despite guidance being issued by the CFO in FY 1996, we found that adequate procedures were not followed regarding Unemployment Trust Fund receivables. This resulted in a $366 million understatement of the reserve for uncollectible accounts. The financial statements were adjusted to reflect this.

ADP Systems Access

During our audit, we noted that controls over user access and segregation of duties needed to be developed. We found that ETA did not restrict access to certain GCMIS modules or functions based on user profiles. The GCMIS system is used by ETA to process over $8 billion in grant expenses each year. There are 90 ETA employees that have access to the system. Any of these employees could use the GCMIS to change amounts made available to grantees and contractors for drawdown in the HHS-Payment Management System. Certain employees could increase contractor obligation amounts recorded in the GCMIS and had authority to certify payments using the Electronic Certification System (ECS) to such contractors.

OTHER REPORTABLE CONDITIONS

We identified the following conditions that we believe are other reportable conditions.

Implementation of the Chief Financial Officers (CFO) Act

In our FY 1994 audit, we reported that the Department had not fully implemented the functions of a Chief Financial Officer in accordance with the *Chief Financial Officers Act* (CFO Act). The Department has worked with the OIG and OMB to develop an organizational structure and related departmental policies that provide the CFO with the appropriate authority to carry out the duties embodied in the CFOs Act. The Department is in the process of finalizing this structure and policies; however, they are not final as of the date of this report.

ADP Controls

In our FY 1995 audit, we recommended that action be taken to ensure that written disaster recovery plans be developed. However, not all agencies had developed such plans by the completion of our FY 1996 audit. The Unemployment Insurance Service (UIS) still has not developed a written disaster recovery plan. Additionally, ETA's Office of Information Resource Management (OIRM) has met with the Department regarding this issue but has taken no substantial steps to develop such a plan.

FECA Program

FECA Actuarial Model

We noted that several improvements could be made to FECA's actuarial model, used to estimate liabilities by agency, including the recommendation to consider a new model that uses the "first principles" method for compensation liability calculation to result in more precision and a more equitable distribution by agency.

Medical Bill Processing System (BPS)

Improvements could be made in regard to the BPS at the district office level to ensure that medical bills are keyed correctly, that bypass codes are being properly utilized, and that procedure code modifiers are being entered properly.

Supervisory Documentation Approval of Medical Bills

Improvements could be made in regard to the BPS at the district office level to ensure that medical bills receive adequate review prior to payment.

Medical Approval Process

We noted that payments were made to medical providers for costs associated with surgical procedures before the claims examiners gathered enough medical evidence in the case files to authorize such payments.

Accounts Receivable

The OWCP debt management system included erroneous accounts receivable balances due to third-party settlements in excess of prior benefits payments to claimants and other errors in recording overpayments and assessment of interest.

Continuing Eligibility - SSA Earnings Confirmation

As reported in our FY 1995 audit, we continue to note that improvements could be made in obtaining earnings statements from the Social Security Administration.

Chargeback Accounting

As reported in our FY 1994 and FY 1995 audits, we noted the need for timely posting of data in the system used to account for billings to other Federal agencies for Federal Workers Compensation benefits paid by DOL on their behalf. Management developed a corrective action plan that significantly decreased this timing variance. However, management has not implemented a FECA policy to effectively monitor monthly reporting.

Black Lung Disability Trust Fund (BLDTF)

Interest on Repayable Advances

The rate of interest charged on advances to the Trust Fund is not in compliance with the *Black Lung Benefits Revenue Act of 1977*, as amended. The Act requires interest rates based on the average rate borne by obligations of the United States. For advances after 1981, the average rate should be based only on obligations whose remaining period to maturity is comparable to the anticipated maturity for the Black Lung advances.

In our FY 1995 audit, we noted interest rates used both before and after the 1981 amendments were based on the rate charged for 15-year obligations. Such a rate would not necessarily equal the actual average rate of obligations outstanding. Further, the interest rate for post-1981 advances should have been limited to those obligations with comparable maturity periods.

ESA has initiated discussions with the U.S. Treasury to revise their existing Memorandum of Understanding (MOU) to include specific provisions which outline the responsibilities of each party and clarify Treasury's authority to revise interest rates on prior, current or future repayable advances. We believe specific provisions of the revised MOU conflict with Treasury's inherent statutory authority to make retroactive adjustments in interest rates. Further, ESA has not agreed to address existing interest rates that may not be in compliance with the law.

Actuarial Liability

As noted in our FY 1995 audit, several assumptions used by the Black Lung actuarial model have not been updated recently or should otherwise be reviewed to determine if changes are necessary. ESA agreed to review and revise elements of the actuarial model; however, our actuarial review indicates that no changes have been made to the model for FY 1996.

Accounting for Grants

ETA Debt Management

ETA Debt management activities are maintained on a subsidiary system that is not integrated with the general ledger. Instead, activity is recorded in the general ledger at year end only. This has resulted in numerous problems in the accuracy of debt management related accounts and related reports.

Grant Accounting Policies

The Department needs written policies and procedures covering the minimum requirements for grant accounting. These should address documentation; cost estimation for accruals; fund control; supervisory reviews; use of controls available through HHS's Payment Management System (PMS); recording of transactions from subsidiary systems; and periodic reconciliations between the general ledger, subsidiary systems, and supporting documentation. The OCFO issued draft policies in December 1996. The policies have not yet been finalized.

Accrued Costs

In prior years, we recommended that the cost accrual model used by ETA be redesigned to produce more accurate accruals. ETA has developed a process to calculate accrual cost at year end for the financial statements. We have agreed with ETA that given the changes that may be required to conform to the new financial statement format that will take effect in 1998, permanent changes to the automated accrual system should be held until such effects are known.

We also noted significant problems with ETA's timeliness of recording cost reports in its subsidiary ledger and the adequacy of its grant closeout system.

Unemployment Trust Fund (UTF)

Cost of Federal and State Unemployment Benefit Programs

In previous audits, we made recommendations regarding the proper accounting for the cost of Federal and state unemployment benefit programs.

The OCFO, Unemployment Insurance Service (UIS), and ETA Comptroller's Office have continued their joint efforts to complete the comprehensive accounting system including subsidiaries for each Federal and state program (i.e., regular state UI, EB, EUC, UCFE, and UCX). The remaining component, an automated interface for the transfer of monthly accounting data between the FMRS, DOL's general ledger, and Treasury's new UTF accounting system is targeted for completion during the second quarter of FY 1997.

Federal Employees Unemployment Compensation

In previous audits of the UTF, recommendations related to the need for establishment of an accounting system for the Federal Employment Compensation (FEC) Account were made.

ETA developed certain subsidiary ledgers during FY 1993. Although progress has been made since then, we continued to note errors that were not detected by management, identified further improvements needed, and noted that the systems are not yet integrated with the Department's general ledger.

Emergency Unemployment Compensation (EUC) Program Funding

The EUC program was created in November 1991, to provide benefits to individuals who had exhausted their rights under state law to regular, extended, or additional unemployment compensation. Funding for the program was provided from both Federal unemployment taxes and appropriations from the U.S. Treasury general fund.

Because of the extremely short implementation timeframe, complexity of the EUC provisions and emphasis on paying EUC benefits properly, many states had difficultly providing complete reporting of the EUC benefit payments in the form necessary for the Department to determine the proper source of funding. This caused the Department to estimate the amount of funding from appropriations.

Although the Department has resolved the issue of estimated costs, it has not addressed how state refunds, adjustments and payments will be analyzed to determine the appropriate funding source to credit.

Property and Equipment

Job Corps Real and Personal Property

In past years, we have reported numerous issues related to ETA's accounting of the Job Corps Program's real and personal property. The systems used by ETA are insufficient. They consist of manual spreadsheets, which are: updated and recorded in the general ledger at year end only; not integrated with the Department's general ledger; and not reconcilable to the ETA 2110 cost reports (the official record of expenditure) submitted by Job Corps contractors. Additionally, recording acquisitions as lump-sum amounts by center by year does not facilitate removing items from inventory that have been disposed.

Based on prior year recommendations, in FY 1996, ETA management began to record and depreciate certain vocational skills training (VST) projects requiring capitalization. In addition, ETA management has established a more realistic life for real property from 10 to 40 years. However, OIG continues to believe these changes need to encompass years prior to FY 1996, rather than only from FY 1996 forward.

SESA Real Property

In prior years, we reported that ETA did not maintain sufficient accountability over real property purchased with SESA grant funds, in which the Department maintains a reversionary interest.

ETA has established a position to monitor and develop written guidance for recording of SESA real property. However, ETA cannot provide a complete and up-to-date state SESA inventory list or state certifications of SESA real property.

Departmental Property System

During FY 1996, we identified an ADP system under development in ESA that was not recorded in the Department's property system.

Fines and Penalties

Weaknesses exist in the accounting systems used by the Mine Safety and Health Administration (MSHA), Occupational Safety and Health Administration (OSHA), and the Pension and Welfare Benefits Administration (PWBA) to track proposed assessments and civil penalties. These systems were not integrated with DOLAR$ in an efficient and effective manner to provide agency-wide financial information. Additionally, some systems did not provide transaction level detail to support billings, collections, write-offs, accrued interest and administrative fees.

Accounts Receivable

The Department did not have adequate procedures in place to ensure that agency reported receivable balances were accurate. We identified weaknesses including failure to record receivables until year end and failure to record receivable amounts on an accrual basis at MSHA. Additionally, we noted incorrect accounts receivable in the Longshore and Back Wage accounts due to incorrect postings, failure to record adjustments in accounts, and inaccurate subsidiary detail.

Trust Fund Administrative Assessments

As initially noted in our FY 1992 audit, ETA needs supporting data to document that DOL's administrative charges to the UTF represent actual expenditures in accordance with the budget. Further, ETA needs to ensure that all Treasury estimated charges are subsequently adjusted to actual. Management is implementing procedures to track trust fund administrative expenditures beginning in FY 1997. Treasury has provided guidance to the Department relating to the processing of charges to the UTF and has plans in place to ensure proper adjustments are instituted during FY 1997.

Job Corps Program Accounting

In 1995, we issued a separate report regarding Job Corps' Student Pay, Allotment and Management Information System (SPAMIS). The report cited several internal control weaknesses in the SPAMIS system, relative to the accounting of Job Corps student payroll. Such weaknesses affect the completeness and accuracy of the Department's financial statements.

Job Corps has made progress in addressing these weaknesses, however, corrective action is not complete. Job Corps has developed a general ledger to record all financial activity that is processed through the SPAMIS system. In addition, Job Corps contracted with a CPA firm to assist in the completion of the project.

Working Capital Fund (WCF) Cost Allocations

In our FY 1992 audit, we noted that approximately 88 percent of the costs recovered for the operation of the DOL Academy were based on employment levels rather than usage of the Academy's service. Other cost recoveries were not based on the unit pricing of goods or services and did not reflect the current costs to the WCF of providing such services. As of FY 1996, management has not implemented revised pricing strategies to reflect current costs of providing training services to departmental agencies.

Performance Measures

As in prior year audits, we continue to note the need for CFO guidance to agencies concerning the verification of sub-Federal data and the availability of documentation to support reported performance measures. We also noted that the OCFO lacked assurances from the agencies regarding the adequacy of controls over systems producing performance data.

We noted other matters involving the internal control structure and its operation that we have reported to the management of DOL in a separate letter dated February 7, 1997.

REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of DOL's compliance with certain provisions of laws and regulations. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests of compliance disclosed the following material instances[3] of noncompliance, which have also been reported above. We considered these material instances of noncompliance in forming our opinion on the financial statements.

Implementation of the Chief Financial Officers (CFO) Act

See discussion under the other reportable conditions section above.

Wage and Hour's Back Wage System

Under the provisions of various labor standards laws, back wages are determined and collected by ESA for remittance to the affected employees or, if the employees cannot be located, to the U.S. Treasury. Back wages collected are held in a special deposit account for a period of time prescribed by law, after which they revert to Treasury.

As of September 30, 1996, Wage and Hour had approximately $46 million on deposit that had not been distributed to employees, of which we estimate that at least $8.5 million should have been reverted to the U.S. Treasury. Further, we believe that WHD has misinterpreted the criteria for reverting funds to Treasury and that a revision of existing policy is necessary.

ETA Grant Closeout Process

ETA lacks overall coordination of the closeout process for its grants and contracts. Consequently, grantees are not providing timely information and the grants and contracts are not being closed.

[3]Material instances of noncompliance consist of failures to follow requirements, or violations of prohibitions, contained in statutes or regulations that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the financial statements.

MANAGEMENT'S RESPONSIBILITIES

Management is responsible for:

- These financial statements, the overview of the reporting entity, and the supplemental information.

- Establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:
  - obligations and costs are in compliance with applicable laws and regulations;
  - funds, property, and other assets are safeguarded against waste, loss, and unauthorized use or misappropriation;
  - transactions are executed in accordance with management's authorization;
  - assets, liabilities, revenues, and expenditures applicable to DOL operations are properly recorded in order to maintain accountability and to permit the preparation of reliable financial and statistical reports; and
  - data that support related performance measures are properly recorded and accounted for to permit preparation of reliable and complete performance information.

- Complying with laws and regulations applicable to DOL and each fund.

AUDITORS' RESPONSIBILITIES

Our responsibilities are to:

- Express an opinion as to the fair presentation of the FYs 1996 and 1995 consolidated financial statements and the financial statements of the individual funds referred to above.

- Obtain an understanding of DOL's internal control structure and report the results of this review, including the extent to which noted weaknesses may materially affect the financial statements taken as a whole.

- Obtain an understanding of DOL's internal control structure related to performance

measurement data; assess related risks, but not test the underlying data; and report matters considered to be reportable conditions, as defined above.

- Perform tests of DOL's compliance with certain provisions of laws and regulations and report the results of our tests, including any noncompliance that could materially affect the financial statements.

Because of inherent limitations in any internal control structure, errors, irregularities, losses, noncompliance, or misstatements may nevertheless occur and not be detected. Also, projection of any evaluation of the internal control structure to future periods is subject to the risk that the controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate. Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

To fulfill these responsibilities, we:

- Reviewed the appropriate reports of: GAO, DOL, OIG, and other previously issued reports relative to the scope of our financial statement audit.

- Obtained an understanding of management's process for evaluating and reporting on internal control and accounting systems as required by the *Federal Managers' Financial Integrity Act* (FMFIA). We also compared the material weaknesses reported in the Department's FMFIA report that relate to the financial statements under audit to the material weaknesses and other reportable conditions found during the evaluation we conducted of the Department's internal control system. However, our objective was not to provide an opinion on overall compliance with such provisions.

- Obtained an understanding of the design of relevant internal control policies and procedures and whether they had been placed in operation.

- Assessed control risk[4].

- Performed tests of significant controls on a selected basis.

- Tested compliance with selected provisions of laws and regulations which may materially affect the financial statements and certain other laws and regulations designated by the Office of Management and Budget in Bulletin 93-06.

- Reviewed internal controls pertaining to the existence and completeness assertions for systems producing performance measures in DOL's overview of the reporting entity.

- Examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements.

- Assessed the accounting principles used and significant estimates made by management.

- Evaluated the overall financial statement presentation.

This report is intended for the information of the U.S. Department of Labor management. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

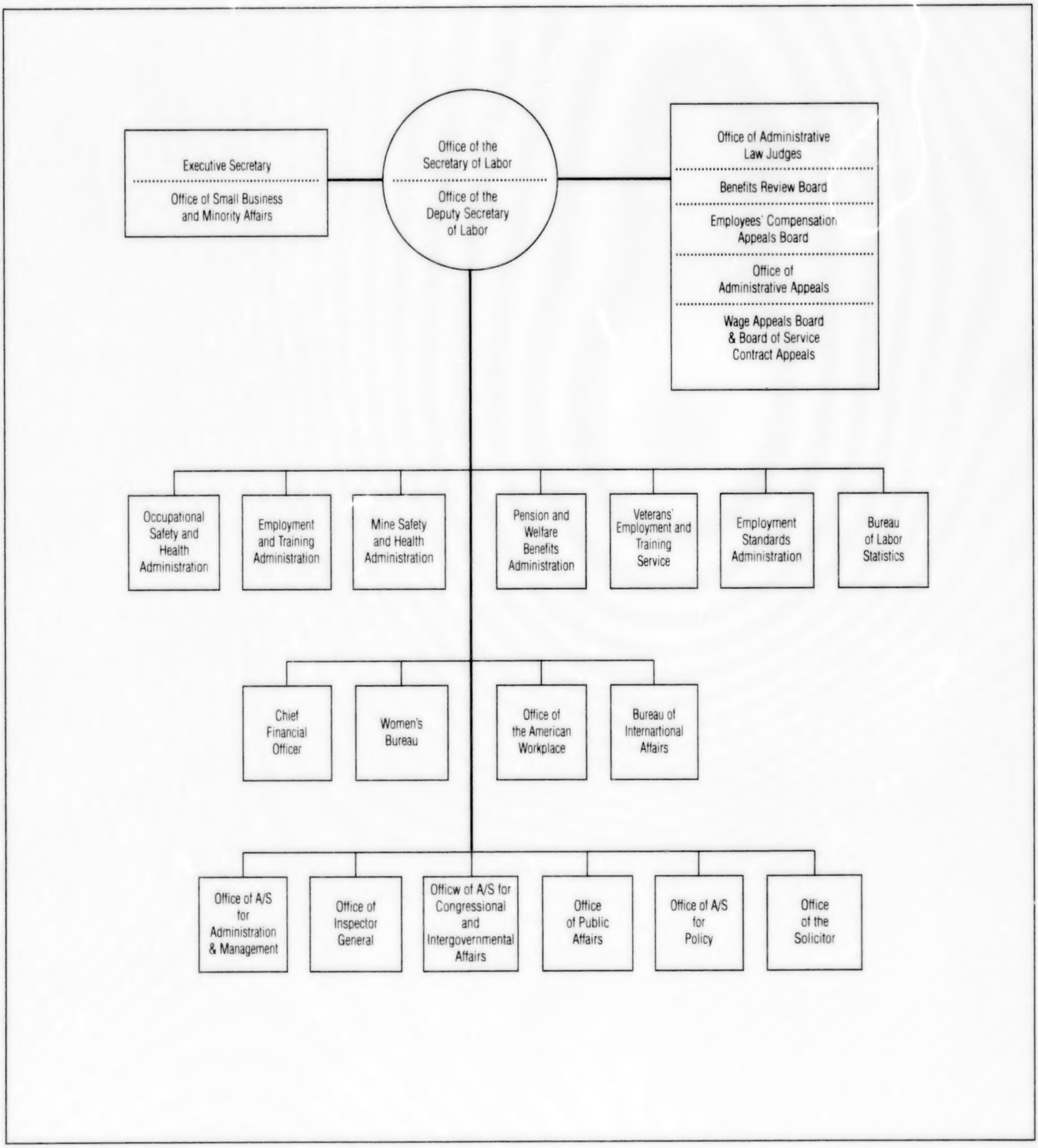
John J. Getek

JOHN J. GETEK
Assistant Inspector General for Audit

February 7, 1997

[4]Control risk assesses the likelihood that a material misstatement would occur (inherent risk) and not be prevented or detected on a timely basis by the Department's internal controls.

U.S. Department of Labor



- Worked to restore the Summer Jobs Program for more than half a million disadvantaged teenagers.

Promoting and Protecting Veterans Employment

- Helped more than 533,000 veterans obtain civilian jobs.
- Recovered more than $2.7 million in lost wages and benefits and protected the jobs of 4000 veterans through implementation of the Uniformed Services Employment and Reemployment Rights Act.

Improving Opportunities for Women Workers

- Created a Working Women Count! Honor Roll and received over 1300 pledges for specific new programs that make workplaces more family friendly.

Reinventing The Way We Do Business

- Streamlined, eliminated over 900 pages of regulations, developed partnerships and focused on common sense enforcement.
- Received 25 Hammer Awards for reinvention for a total of 38 since the award's inception.
- Reduced employees by 11.6%, or 2,101, since January 1993.

END

09/30/98